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ABSTRACT

The Policy Committee of the Upper Midwest Regional Interstate Project saw a need to inform the State Education Agencies (SEAs) concerning the implications of federal program indirect costs. The Indirect Cost Workshop was established to develop communication concerning the problems between the United States Office of Education (USOE), SEAs, and several SEAs that have USOE-approved plans for indirect costs. The information gained through the workshop was to assist the SEAs in completing preparations for their Indirect Cost System before the deadline of June 30, 1973. The document begins by reproducing Federal Circular No. A-87 which sets forth principles for determining the allowable costs of programs administered by State and local governments under grants from and contracts with the Federal Government. The Michigan Indirect Cost Plan and the forms used in that plan are considered next. The document concludes by examining the federal view of program Indirect Costs and by considering Indirect Cost problems as viewed by centralized State administrative services and the local education agency. (Author/DN)

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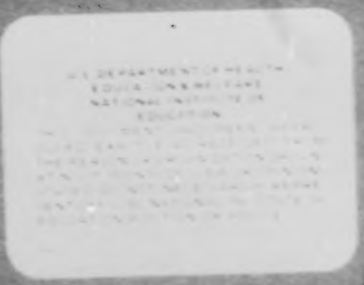

Indirect Costs SEA-LEA Workshop

ED 089448

EA 006 035

INDIRECT COSTS SEA-LEA WORKSHOP

Report of Workshop
Conducted by Upper Midwest
Regional Interstate Project

ESEA Title V, Sec. 505

January 17 & 18, 1973
Chicago, Illinois

Compiled By Dr. Robb L. Shanks
Director, Upper Midwest Regional Interstate
Planning Project
Wisconsin Department of Public Instruction
126 Langdon Street, Madison 53702
Dr. Barbara Thompson, State Superintendent

Bulletin No. 4252

Interstate Project
for State Planning
and Program Consolidation

Participating States	Chief State School Officers	Policy Committee
Illinois	Dr. Michael Bakalis	Dr. Emmett Slingsby
Indiana	Dr. Harold H. Negley	Mr. Ray Slaby
Michigan	Dr. John Porter	Mr. Alex Canja
Minnesota	Mr. Howard Casmey	Mr. Gregory J. Waddick
Ohio	Dr. Martin W. Essex	Dr. Paul Spayde
Wisconsin	Dr. Barbara Thompson	Dr. Archie Buchmiller

Dr. R[illegible]. Shanks
Pro[illegible]ector

Project Office:

Wisconsin Department of Public Instruction
126 Langdon Street
Madison, Wisconsin 53702

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Introduction

The Policy Committee of the Upper Midwest Regional Interstate Project saw a need to inform the SEAs concerning the implications of federal program Indirect Costs. The Indirect Cost Workshop was established to develop communication concerning the problems between the USOE, SEAs and several SEAs that have USOE - approved plans for Indirect Costs. The information gained through the workshop was to assist the SEAs in completing preparations for their Indirect Cost System before the deadline of June 30, 1973.

Robb L. Shanks

Interstate Project Director

Circular No. A-87
Concerning the
Federal Indirect Cost Plan

APPENDIX 1

EXECUTIVE OFFICE OF THE PRESIDENT
Bureau of the Budget
Washington, D.C. 20503

May 9, 1968 CIRCULAR NO. A–87

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Principles for determining costs applicable to grants and contracts with State and local governments

1. *Purpose.* This Circular promulgates principles and standards for determining costs applicable to grants and contracts with State and local governments. They are designed to provide the basis for a uniform approach to the problem of determining costs and to promote efficiency and better relationships between grantees and their Federal counterparts.

2. *Coverage.* This Circular applies to all Federal agencies responsible for administering programs that involve grants and contracts with State and local governments. However, it does not apply to grants and contracts with (a) publicly financed educational institutions subject to Bureau of the Budget Circular No. A–21, and (b) publicly owned hospitals and other providers of medical care subject to requirements promulgated by the sponsoring Federal agencies. Any other exceptions will be approved by the Bureau of the Budget in particular cases where adequate justification is presented.

3. *Cost principles.* The principles to be followed in determining costs are set forth in Attachment A. Standards with respect to the allowability of selected items of cost are set forth in Attachment B.

4. *Effective date.* The principles will be applied at the earliest practicable date but not later than January 1, 1969,* with respect to State governments and January 1, 1970, with respect to local governments. This arrangement will permit prompt implementation in programs where that is possible, but also allow time for study and development of necessary procedures in more complex programs.

PHILLIP S. HUGHES
Acting Director

Attachments

*The Bureau of the Budget has revised this date to July 1, 1969.

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PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO GRANTS AND CONTRACTS WITH STATE AND LOCAL GOVERNMENTS

A. *Purpose and scope.*

1. *Objectives.* This Attachment sets forth principles for determining the allowable costs of programs administered by State and local governments under grants from and contracts with the Federal Government. The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal and State or local participation in the financing of a particular grant. They are designed to provide that federally assisted programs bear their fair share of costs recognized under these principles, except where restricted or prohibited by law. No provision for profit or other increment above cost is intended.

2. *Policy guides.* The application of these principles is based on the fundamental premises that:

a. State and local governments are responsible for the efficient and effective administration of grant and contract programs through the application of sound management practices.

b. The grantee or contractor assumes the responsibility for seeing that Federally assisted program funds have been expended and accounted for consistent with underlying agreements and program objectives.

c. Each grantee or contractor organization, in recognition of its own unique combination of staff facilities and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration.

3. *Application.* These principles will be applied by all Federal agencies in determining costs incurred by State and local governments under Federal grants and cost reimbursement type contracts (including subgrants and subcontracts) except those with (a) publicly financed educational institutions subject to Bureau of the Budget Circular A–21, and (b) publicly owned hospitals and other providers of medical care subject to requirements promulgated by the sponsoring Federal agencies.

B. *Definitions.*

1. *Approval or authorization of the grantor Federal agency* means documentation evidencing consent prior to incurring specific cost.

2. *Cost allocation plan* means the documentation identifying, accumulating, and distributing allowable costs under grants and contracts together with the allocation methods used.

3. *Cost,* as used herein, means cost as determined on a cash, accrual, or other basis acceptable to the Federal grantor agency as a discharge of the grantee's accountability for Federal funds.

4. *Cost objective* means a pool, center, or area established for the accumulation of cost. Such areas include organizational units, functions, objects or items of expense, as well as ultimate cost objectives including specific grants, projects, contracts, and other activities.

5. *Federal agency* means any department, agency, commission, or instrumentality in the executive branch of the Federal Government which makes grants to or contracts with State or local governments.

6. *Grant* means an agreement between the Federal Government and a State or local government whereby the Federal Government provides funds or aid in kind to carry out specified programs, services, or activities.

The principles and policies stated in this Circular as applicable to grants in general also apply to any Federally sponsored cost reimbursement type of agreement performed by a State or local government, including contracts, subcontracts and subgrants.

7. *Grant program* means those activities and operations of the grantee which are necessary to carry out the purposes of the grant, including any portion of the program financed by the grantee.

8. *Grantee* means the department or agency of State or local government which is responsible for administration of the grant.

9. *Local unit* means any political subdivision of government below the State level.

10. *Other State or local agencies* means departments or agencies of the State or local unit which provide goods, facilities, and services to a grantee.

11. *Services*, as used herein, means goods and facilities, as well as services.

12. *Supporting services* means auxiliary functions necessary to sustain the direct effort involved in administering a grant program or an activity providing service to the grant program. These services may be centralized in the grantee department or in some other agency, and include procurement, payroll, personnel functions, maintenance and operation of space, data processing, accounting, budgeting, auditing, mail and messenger service, and the like.

C. *Basic guidelines.*

1. *Factors affecting allowability of costs.* To be allowable under a grant program, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient administration of the grant program, be allocable thereto under these principles, and, except as specifically provided herein, not be a general expense required to carry out the overall responsibilities of State or local governments.

b. Be authorized or not prohibited under State or local laws or regulations.

c. Conform to any limitations or exclusions set forth in these principles, Federal laws, or other governing limitations as to types or amounts of cost items.

d. Be consistent with policies, regulations, and procedures that apply uniformly to both Federally assisted and other activities of the unit of government of which the grantee is a part.

e. Be accorded consistent treatment through application of generally accepted accounting principles appropriate to the circumstances.

f. Not be allocable to or included as a cost of any other Federally financed program in either the current or a prior period.

g. Be net of all applicable credits.

2. *Allocable costs.*

a. A cost is allocable to a particular cost objective to the extent of benefits received by such objective.

b. Any cost allocable to a particular grant or cost objective under the principles provided for in this Circular may not be shifted to other Federal grant programs to overcome fund deficiencies, avoid restrictions imposed by law or grant agreements, or for other reasons.

c. Where an allocation of joint cost will ultimately result in charges to a grant program, an allocation plan will be required as prescribed in section J.

3. *Applicable credits.*

a. Applicable credits refer to those receipts or reduction of expenditure-type transactions which offset or reduce expense items allocable to grants as direct or indirect costs. Examples of such transactions are: purchase discounts; rebates or allowances; recoveries or indemnities on losses; sale of publications, equipment, and scrap; income from personal or incidental services; and adjustments of overpayments or erroneous charges.

b. Applicable credits may also arise when Federal funds are received or are available from sources other than the grant program involved to finance operations or capital items of the grantee. This includes costs

arising from the use or depreciation of items donated or financed by the Federal Government to fulfill matching requirements under another grant program. These types of credits should likewise be used to reduce related expenditures in determining the rates or amounts applicable to a given grant.

D. *Composition of cost.*

1. *Total cost.* The total cost of a grant program is comprised of the allowable direct cost incident to its performance, plus its allocable portion of allowable indirect costs, less applicable credits.

2. *Classification of costs.* There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the grant or other ultimate cost objective. It is essential therefore that each item of cost be treated consistently either as a direct or an indirect cost. Specific guides for determining direct and indirect costs allocable under grant programs are provided in the sections which follow.

E. *Direct costs.*

1. *General.* Direct costs are those that can be identified specifically with a particular cost objective. These costs may be charged directly to grants, contracts, or to other programs against which costs are finally lodged. Direct costs may also be charged to cost objectives used for the accumulation of costs pending distribution in due course to grants and other ultimate cost objectives.

2. *Application.* Typical direct costs chargeable to grant programs are:

a. Compensation of employees for the time and effort devoted specifically to the execution of grant programs.

b. Cost of materials acquired, consumed, or expended specifically for the purpose of the grant.

c. Equipment and other approved capital expenditures.

d. Other items of expense incurred specifically to carry out the grant agreement.

e. Services furnished specifically for the grant program by other agencies, provided such charges are consistent with criteria outlined in Section G. of these principles.

F. *Indirect costs.*

1. *General.* Indirect costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities, to the grantee department. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect cost within a grantee department or in other agencies providing services to a grantee department. Indirect cost pools should be distributed to benefiting cost objectives on bases which will produce an equitable result in consideration of relative benefits derived.

2. *Grantee departmental indirect costs.* All grantee departmental indirect costs, including the various levels of supervision, are eligible for allocation to grant programs provided they meet the conditions set forth in this Circular. In lieu of determining the actual amount of grantee departmental indirect cost allocable to a grant program, the following methods may be used:

a. *Predetermined fixed rates for indirect costs.* A predetermined fixed rate for computing indirect costs applicable to a grant may be negotiated annually in situations where the cost experience and other pertinent facts available are deemed sufficient to enable the contracting parties to reach an informed judgment (1) as to the probable level of indirect costs in the grantee department during the period to be covered by the negotiated rate, and (2) that the amount

allowable under the predetermined rate would not exceed actual indirect costs.

b. *Negotiated lump sum for overhead.* A negotiated fixed amount in lieu of indirect costs may be appropriate under circumstances where the benefits derived from a grantee department's indirect services cannot be readily determined as in the case of small, self-contained or isolated activity. When this method is used, a determination should be made that the amount negotiated will be approximately the same as the actual indirect cost that may be incurred. Such amounts negotiated in lieu of indirect costs will be treated as an offset to total indirect expenses of the grantee department before allocation to remaining activities. The base on which such remaining expenses are allocated should be appropriately adjusted.

3. *Limitation on indirect costs.*

a. Federal grants may be subject to laws that limit the amount of indirect cost that may be allowed. Agencies that sponsor grants of this type will establish procedures which will assure that the amount actually allowed for indirect costs under each such grant does not exceed the maximum allowable under the statutory limitation or the amount otherwise allowable under this Circular, whichever is the smaller.

b. When the amount allowable under a statutory limitation is less than the amount otherwise allocable as indirect costs under this Circular, the amount not recoverable as indirect costs under a grant may not be shifted to another Federally sponsored grant program or contract.

G. *Cost incurred by agencies other than the grantee.*

1. *General.* The cost of service provided by other agencies may only include allowable direct costs of the service plus a prorata share of allowable supporting costs (section B.12.) and supervision directly required in performing the service, but not supervision of a general nature such as that provided by the head of a department and his staff assistants not directly involved in operations. However, supervision by the head of a department or agency whose sole function is providing the service furnished would be an eligible cost. Supporting costs include those furnished by other units of the supplying department or by other agencies.

2. *Alternative methods of determining indirect cost.* In lieu of determining actual indirect cost related to a particular service furnished by another agency, either of the following alternative methods may be used provided only one method is used for a specific service during the fiscal year involved.

a. *Standard indirect rate.* An amount equal to ten percent of direct labor cost in providing the service performed by another State agency (excluding overtime, shift, or holiday premiums and fringe benefits) may be allowed in lieu of actual allowable indirect cost for that service.

b. *Predetermined fixed rate.* A predetermined fixed rate for indirect cost of the unit or activity providing service may be negotiated as set forth in section F.2.a.

H. *Cost incurred by grantee department for others.*

1. *General.* The principles provided in section G. will also be used in determining the cost of services provided by the grantee department to another agency.

J. *Cost allocation plan.*

1. *General.* A plan for allocation of costs will be required to support the distribution of any joint costs related to the grant program. All costs included in the plan will be supported by formal accounting records which will substantiate the propriety of eventual charges.

2. *Requirements.* The allocation plan of the grantee department should cover all joint costs of the department as well as costs to be allocated under plans of other agencies or organizational units which are to be included in the costs of Federally sponsored programs. The cost allocation plans of all the agencies rendering services to the

grantee department, to the extent feasible, should be presented in a single document. The allocation plan should contain, but not necessarily be limited to, the following:

a. The nature and extent of services provided and their relevance to the Federally sponsored programs.

b. The items of expense to be included.

c. The methods to be used in distributing cost.

3. *Approval of cost allocation plan.* The allocation plan for a given cost area or objective will serve all the Federal agencies involved.

a. At the State level, the Department of Health, Education, and Welfare will be responsible for the negotiation and approval of the cost allocation plans for central support services to grant programs. The approved plans will be accepted by other Federal agencies, unless an agency determines that the approved plan would result in significant inequitable or improper charges to programs for which it is responsible. The Department of Health, Education, and Welfare will collaborate with the other Federal agencies concerned in the development of guidance material concerning the cost allocation plan and in the negotiation and approval of the plan. It will also collaborate with the States concerning procedures for the administration of the cost allocation plan. The Department of Health, Education, and Welfare will be responsible for the audit of costs resulting from the cost allocation plan, the results of which will be accepted by other Federal agencies.

b. At the grantee department level in a State, and for local governments, Federal agencies will work towards the objective of designating a single Federal agency, the one with predominant interest, which will have responsibility similar to that set forth in a. above for the negotiation and approval of the cost allocation plan and for the audit of costs.

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STANDARDS FOR SELECTED ITEMS OF COST

A. *Purpose and applicability.*

1. *Objective.* This Attachment provides standards for determining the allowability of selected items of cost.

2. *Application.* These standards will apply irrespective of whether a particular item of cost is treated as direct or indirect cost. Failure to mention a particular item of cost in the standards is not intended to imply that it is either allowable or unallowable, rather determination of allowability in each case should be based on the treatment of standards provided for similar or related items of cost. The allowability of the selected items of cost is subject to the general policies and principles stated in Attachment A of this Circular.

B. *Allowable costs.*

1. *Accounting.* The cost of establishing and maintaining accounting and other information systems required for the management of grant programs is allowable. This includes costs incurred by central service agencies for these purposes. The cost of maintaining central accounting records required for overall State or local government purposes, such as appropriation and fund accounts by the Treasurer, Comptroller, or similar officials, is considered to be a general expense of government and is not allowable.

2. *Advertising.* Advertising media includes newspapers, magazines, radio and television programs, direct mail, trade papers, and the like. The advertising costs allowable are those which are solely for:

a. Recruitment of personnel required for the grant program.

b. Solicitation of bids for the procurement of goods and services required.

c. Disposal of scrap or surplus materials acquired in the performance of the grant agreement.

d. Other purposes specifically provided for in the grant agreement.

3. *Advisory councils.* Costs incurred by State advisory councils or committees established pursuant to Federal requirements to carry out grant programs are allowable. The cost of like organizations is allowable when provided for in the grant agreement.

4. *Audit service.* The cost of audits necessary for the administration and management of functions related to grant programs is allowable.

5. *Bonding.* Costs of premiums on bonds covering employees who handle grantee agency funds are allowable.

6. *Budgeting.* Costs incurred for the development, preparation, presentation, and execution of budgets are allowable. Costs for services of a central budget office are generally not allowable since these are costs of general government. However, where employees of the central budget office actively participate in the grantee agency's budget process, the cost of identifiable services is allowable.

7. *Building lease management.* The administrative cost for lease management which includes review of lease proposals, maintenance of a list of available property for lease, and related activities is allowable.

8. *Central stores.* The cost of maintaining and operating a central stores organization for supplies, equipment, and materials used either directly or indirectly for grant programs is allowable.

9. *Communications.* Communication costs incurred for telephone calls or service, telegraph, teletype service, wide area telephone service (WATS), centrex, telpak (tie lines), postage, messenger service and similar expenses are allowable.

10. *Compensation for personal services.*

a. *General.* Compensation for personal services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under the grant agreement, including but not necessarily limited to wages, salaries, and supplementary compensation and benefits (section B.13.). The costs of such compensation are allowable to the extent that total compensation for individual employees: (1) is reasonable for the services rendered, (2) follows an appointment made in accordance with State or local government laws and rules and which meets Federal merit system or other requirements, where applicable; and (3) is determined and supported as provided in b. below. Compensation for employees engaged in Federally assisted activities will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the State or local government. In cases where the kinds of employees required for the Federally assisted activities are not found in the other activities of the State or local government, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

b. *Payroll and distribution of time.* Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and approved in accordance with generally accepted practice of the State or local agency. Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

11. *Depreciation and use allowances.*

a. Grantees may be compensated for the use of buildings, capital improvements, and equipment through use allowances or depreciation. Use allowances are the means of providing compensation in lieu of depreciation or other equivalent costs. However, a combination of the two methods may not be used in connection with a single class of fixed assets.

b. The computation of depreciation or use allowance will be based on acquisition cost. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used in the computation. The computation will exclude the cost or any portion of the cost of buildings and equipment donated or borne directly or indirectly by the Federal Government through charges to Federal grant programs or otherwise, irrespective of where title was originally vested or where it presently resides. In addition, the computation will also exclude the cost of land. Depreciation or a use allowance on idle or excess facilities is not allowable, except when specifically authorized by the grantor Federal agency.

c. Where the depreciation method is followed, adequate property records must be maintained, and any generally accepted method of computing depreciation may be used. However, the method of computing depreciation must be consistently applied for any specific asset or class of assets for all affected federally sponsored programs and must result in equitable charges considering the extent of the use of the assets for the benefit of such programs.

d. In lieu of depreciation, a use allowance for buildings and improvements may be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment (excluding items properly capitalized as building cost) will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost of usable equipment.

e. No depreciation or use charge may be allowed on any assets that would be con-

sidered as fully depreciated, provided, however, that reasonable use charges may be negotiated for any such assets if warranted after taking into consideration the cost of the facility or item involved, the estimated useful life remaining at time of negotiation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the facility or item for the purpose contemplated.

12. *Disbursing service.* The cost of disbursing grant program funds by the Treasurer or other designated officer is allowable. Disbursing services cover the processing of checks or warrants, from preparation to redemption, including the necessary records of accountability and reconciliation of such records with related cash accounts.

13. *Employee fringe benefits.* Costs identified under a. and b. below are allowable to the extent that total compensation for employees is reasonable as defined in section B.10.

a. Employee benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, court leave, military leave, and the like, if they are: (1) provided pursuant to an approved leave system, and (2) the cost thereof is equitably allocated to all related activities, including grant programs.

b. Employee benefits in the form of employers' contribution or expenses for social security, employees' life and health insurance plans, unemployment insurance coverage, workmen's compensation insurance, pension plans, severance pay, and the like, provided such benefits are granted under approved plans and are distributed equitably to grant programs and to other activities.

14. *Employee morale, health and welfare costs.* The costs of health or first-aid clinics and or infirmaries, recreational facilities, employees' counseling services, employee information publications, and any related expenses incurred in accordance with general State or local policy, are allowable. Income generated from any of these activities will be offset against expenses.

15. *Exhibits.* Costs of exhibits relating specifically to the grant programs are allowable.

16. *Legal expenses.* The cost of legal expenses required in the administration of grant programs is allowable. Legal services furnished by the chief legal officer of a State or local government or his staff solely for the purpose of discharging his general responsibilities as legal officer are unallowable. Legal expenses for the prosecution of claims against the Federal Government are unallowable.

17. *Maintenance and repair.* Costs incurred for necessary maintenance, repair, or upkeep of property which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable.

18. *Materials and supplies.* The cost of materials and supplies necessary to carry out the grant programs is allowable. Purchases made specifically for the grant program should be charged thereto at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the grantee. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing consistently applied. Incoming transportation charges are a proper part of material cost.

19. *Memberships, subscriptions and professional activities.*

a. *Memberships.* The cost of membership in civic, business, technical and professional organizations is allowable provided: (1) the benefit from the membership is related to the grant program, (2) the expenditure is for agency membership, (3) the cost of the membership is reasonably related to the value of the services or benefits received, and (4) the expenditure is not for membership in an organization which devotes a substantial part of its activities to influencing legislation.

b. *Reference material.* The cost of books, and subscriptions to civic, business, professional, and technical periodicals is allowable when related to the grant program.

c. *Meetings and conferences.* Costs are allowable when the primary purpose of the meeting is the dissemination of technical information relating to the grant program and they are consistent with regular practices followed for other activities of the grantee.

20. *Motor pools.* The costs of a service organization which provides automobiles to user grantee agencies at a mileage or fixed rate and or provides vehicle maintenance, inspection and repair services are allowable.

21. *Payroll preparation.* The cost of preparing payrolls and maintaining necessary related wage records is allowable.

22. *Personnel administration.* Costs for the recruitment, examination, certification, classification, training, establishment of pay standards and related activities for grant programs, are allowable.

23. *Printing and reproduction.* Cost for printing and reproduction services necessary for grant administration, including but not limited to forms, reports, manuals, and informational literature, are allowable. Publication costs of reports or other media relating to grant program accomplishments or results are allowable when provided for in the grant agreement.

24. *Procurement service.* The cost of procurement service, including solicitation of bids, preparation and award of contracts, and all phases of contract administration in providing goods, facilities and services for grant programs, is allowable.

25. *Taxes.* In general, taxes or payments in lieu of taxes which the grantee agency is legally required to pay are allowable.

26. *Training and education.* The cost of in-service training, customarily provided for employee development which directly or indirectly benefits grant programs is allowable. Out-of-service training involving extended periods of time is allowable only when specifically authorized by the grantor agency.

27. *Transportation.* Costs incurred for freight, cartage, express, postage and other transportation costs relating either to goods purchased, delivered, or moved from one location to another are allowable.

28. *Travel.* Travel costs are allowable for expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business incident to a grant program. Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in nonfederally sponsored activities. The difference in cost between first-class air accommodations and less-than-first-class air accommodations is unallowable except when less-than-first-class air accommodations are not reasonably available.

C. *Costs allowable with approval of grantor agency.*

1. *Automatic data processing.* The cost of data processing services to grant programs is allowable. This cost may include rental of equipment or depreciation on grantee-owned equipment. The acquisition of equipment, whether by outright purchase, rental-purchase agreement or other method of purchase, is allowable only upon specific prior approval of the grantor Federal agency as provided under the selected item for capital expenditures.

2. *Building space and related facilities.* The cost of space in privately or publicly owned buildings used for the benefit of the grant program is allowable subject to the conditions stated below. The total cost of space, whether in a privately or publicly owned building, may not exceed the rental cost of comparable space and facilities in a privately owned building in the same locality. The cost of space procured for grant

program usage may not be charged to the program for periods of nonoccupancy, without authorization of the grantor Federal agency.

a. *Rental cost.* The rental cost of space in a privately owned building is allowable.

b. *Maintenance and operation.* The cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, normal repairs and alterations and the like, are allowable to the extent they are not otherwise included in rental or other charges for space.

c. *Rearrangements and alterations.* Cost incurred for rearrangement and alteration of facilities required specifically for the grant program or those that materially increase the value or useful life of the facilities (section C.3.) are allowable when specifically approved by the grantor agency.

d. *Depreciation and use allowances on publicly owned buildings.* These costs are allowable as provided in section B.11.

e. *Occupancy of space under rental-purchase or lease with option-to-purchase agreement.* The cost of space procured under such arrangements is allowable when specifically approved by the Federal grantor agency.

3. *Capital expenditures.* The cost of facilities, equipment, other capital assets, and repairs which materially increase the value or useful life of capital assets is allowable when such procurement is specifically approved by the Federal grantor agency. When assets acquired with Federal grant funds are (a) sold, (b) no longer available for use in a federally sponsored program, or (c) used for purposes not authorized by the grantor agency, the Federal grantor agency's equity in the asset will be refunded in the same proportion as Federal participation in its cost. In case any assets are traded on new items, only the net cost of the newly acquired assets is allowable.

4. *Insurance and indemnification.*

a. Costs of insurance required, or approved and maintained pursuant to the grant agreement, is allowable.

b. Costs of other insurance in connection with the general conduct of activities is allowable subject to the following limitations:

(1) Types and extent and cost of coverage will be in accordance with general State or local government policy and sound business practice.

(2) Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government property is unallowable except to the extent that the grantor agency has specifically required or approved such costs.

c. Contributions to a reserve for a self-insurance program approved by the Federal grantor agency are allowable to the extent that the type of coverage, extent of coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risks.

d. Actual losses which could have been covered by permissible insurance (through an approved self-insurance program or otherwise) are unallowable unless expressly provided for in the grant agreement. However, costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage and disappearance of small hand tools which occur in the ordinary course of operations, are allowable.

e. *Indemnification* includes securing the grantee against liabilities to third persons and other losses not compensated by insurance or otherwise. The Government is obligated to indemnify the grantee only to the extent expressly provided for in the grant agreement, except as provided in d. above.

5. *Management studies.* The cost of management studies to improve the effectiveness and efficiency of grant management for ongoing programs is allowable except that the cost of studies performed by agencies other than the grantee department or outside consultants is allowable only when authorized by the Federal grantor agency.

6. *Preagreement costs.* Costs incurred prior to the effective date of the grant or contract, whether or not they would have been allowable thereunder if incurred after such date, are allowable when specifically provided for in the grant agreement.

7. *Professional services.* Cost of professional services rendered by individuals or organizations not a part of the grantee department is allowable subject to such prior authorization as may be required by the Federal grantor agency.

8. *Proposal costs.* Costs of preparing proposals on potential Federal Government grant agreements are allowable when specifically provided for in the grant agreement.

D. *Unallowable costs.*

1. *Bad debts.* Any losses arising from uncollectible accounts and other claims, and related costs, are unallowable.

2. *Contingencies.* Contributions to a contingency reserve or any similar provision for unforeseen events are unallowable.

3. *Contributions and donations.* Unallowable.

4. *Entertainment.* Costs of amusements, social activities, and incidental costs relating thereto, such as meals, beverages, lodgings, rentals, transportation, and gratuities, are unallowable.

5. *Fines and penalties.* Costs resulting from violations of, or failure to comply with Federal, State and local laws and regulations are unallowable.

6. *Governor's expenses.* The salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision are considered a cost of general State or local government and are unallowable.

7. *Interest and other financial costs.* Interest on borrowings (however represented), bond discounts, cost of financing and refinancing operations, and legal and professional fees paid in connection therewith, are unallowable except when authorized by Federal legislation.

8. *Legislative expenses.* Salaries and other expenses of the State legislature or similar local governmental bodies such as county supervisors, city councils, school boards, etc., whether incurred for purposes of legislation or executive direction, are unallowable.

9. *Underrecovery of costs under grant agreements.* Any excess of cost over the Federal contribution under one grant agreement is unallowable under other grant agreements.

APPENDIX 2

SAMPLE COST ALLOCATION PLAN FORMATS

1. Indirect Cost Proposal(Grantee Department) Page

Exhibit A-Short Method ---------- 20

Exhibit B-Simplified Method ---------- 22

Exhibit C-Multiple Rate Method ---------- 24

2. Consolidated State-Wide Cost Allocation Plan

Exhibit D-Summary of Plan ---------- 27

Exhibit E-Sample Agency Plan (Centralized Purchasing Services) ---------- 28

DESCRIPTION OF EXHIBIT A

Exhibit A illustrates the distribution of Departmental Costs into the categories (1) Indirect Costs and, (2) Expenditures For All Other Purposes, after eliminating costs for Exclusions and Expenditures Not Allowable, such as capital expenditures. Under the short method of Exhibit A, where indirect costs cannot be identified at the Division or Bureau level, all costs are treated as direct costs. The simplified method of Exhibit B may be used where indirect costs at the Division or Bureau level can be identified.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT-SHORT METHOD*

STATE X

DEPARTMENT OF HEALTH

FOR THE YEAR ENDED JUNE 30, 19...

	Costs Incurred By Other State Agencies	Departmental Costs (c)				
		Exclusions (a)	Expenditures Not Allowable (b)	Indirect Costs	Expenditures For All Other Purposes	Total
Divisions/Bureaus						
Environmental Health			$150,000		$3,971,000	$4,121,000
Maternal and Child Health			40,000		6,197,000	6,237,000
Occupational Health			6,000		287,000	293,000
Chronic Diseases			27,000		3,575,000	3,602,000
Vital Statistics			15,000		2,630,000(f)	2,645,000
Preventable Diseases			10,000		450,000	460,000
Solid Waste Disposal			102,000		971,000	1,073,000
Dental Health			3,000		415,000	418,000
Grants and Subsidies to Localities		$22,500,000				22,500,000
		$22,500,000	$353,000		$18,496,000	$41,349,000
Departmental Indirect Costs						
Office of the Commissioner				$288,100		$288,100
Financial Management				235,600		235,600
Operation and Maintenance of Plant				895,900		895,900
Administrative Services				126,400		126,400
Equipment Use Charges				96,300		96,300
Building Use Charges				157,600		157,600
Total Departmental Costs (d)		$22,500,000	$353,000	$1,799,900	$18,496,000	$43,148,900
Services Furnished (But Not Billed)						
By Other State Agencies (e)						
Accounting Services	$86,000			86,000		86,000
Personnel Administration	9,000			9,000		9,000
Centralized Purchasing	21,000			21,000		21,000
	$116,000					
		$22,500,000	$353,000	$1,915,900	$18,496,000	$43,264,900

EXHIBIT A—Explanatory Notes

(a) In this example, it is assumed that grants and subsidies to localities do not participate costs and do not generate significant direct and/or indirect costs. However, if the grantee incurs significant amount of direct and/or indirect costs in administering the grants and subsidies to localities, then this function should be assessed for its equitable share of those costs.

(b) The Expenditures Not Allowable represent costs of capital expenditures and other costs which are unallowable in accordance with the cost principles and should be excluded from the computation of the indirect cost rate. However, indirect costs should be allocated to Expenditures Not Allowable for those expenditures that either generated or benefited from the indirect costs where the dollar effect is sufficiently material to warrant such allocation.

(c) Under the short method, a determination is first made as to which functions are direct functions (illustrated under the heading Divisions Bureaus) and which functions are indirect functions (illustrated under the heading Departmental Indirect Costs). Within the heading Divisions/Bureaus, all costs are treated as direct costs since indirect costs cannot be identified.

(d) Total Departmental Costs should be reconciled to and accompanied by a copy of the financial statements of the grantee agency.

(e) The costs of Services Furnished (But Not Billed) By Other State Agencies must be in agreement with the amounts shown on the Consolidated State-Wide Cost Allocation Plan—Exhibit D. In this illustration, costs of $116,000 allocated from the Consolidated State-Wide Cost Allocation Plan represent costs that are allocable to the entire Department.

(f) This amount includes $53,000 for data processing Services Furnished (And Billed) By Other State Agencies for programs within the Division of Vital Statistics. See Exhibit D.

*This is a sample only and is not intended to prescribe methods of charging costs. Amounts may be rounded off to the nearest $100.

DESCRIPTION OF EXHIBIT A-1

The totals from Exhibit A are brought forward to this Exhibit. This indirect cost rate is expressed as a percentage resulting from the ratio of allowable indirect costs ($1,915,900) to allowable expenditures for all other purposes ($18,496,000). In the example set forth in Exhibit A, this produces an indirect cost rate of 10.4%, applicable to total direct costs, less capital expenditures.

EXHIBIT A-1

SAMPLE INDIRECT COST RATE PROPOSAL FORMAT-SHORT METHOD*

STATE X

DEPARTMENT OF HEALTH

FOR THE YEAR ENDED JUNE 30, 19

	Total	Less: Exclusions and Expenditures Not Allowable	Indirect Costs	Expenditures for All Other Purposes
TOTALS (Exhibit A)	$43,264,900	$22,853,000	$1,915,900	$18,496,000
			(A)	(B)

Computation of Indirect Cost Rate

$$(A) \div (B) = \frac{\$1,915,900}{\$18,496,000} = \text{Indirect Cost Rate of } 10.4\% \text{ of total direct costs less capital expenditures}$$

*This is a sample only and is not intended to prescribe methods of charging costs.

DESCRIPTION OF EXHIBIT B

Exhibit B illustrates the distribution of Departmental Costs into the categories (1) Indirect Costs and (2) Expenditures for All Other Purposes, after eliminating costs for Exclusions and Expenditures Not Allowable, such as capital expenditures. Exhibit B differs from Exhibit A in that recognition is given to the indirect costs within each Division or Bureau. Under the short method of Exhibit A, where indirect costs cannot be identified at the Division or Bureau level, all costs are treated as direct costs. Under the Simplified method shown in this Exhibit, indirect costs can be identified at the Division or Bureau level, and are so indicated.

EXHIBIT B

SAMPLE INDIRECT COST PROPOSAL FORMAT-SIMPLIFIED METHOD*

STATE X

DEPARTMENT OF HEALTH

FOR THE YEAR ENDED JUNE 30, 19

	Costs Incurred By Other State Agencies	Departmental Costs (c)				
		Exclusions (a)	Expenditures Not Allowable (b)	Indirect Costs	Expenditures For All Other Purposes	Total
Divisions/Bureaus						
Environmental Health			$150,000	$175,000	$3,796,000	$4,121,000
Maternal and Child Health			40,300	844,000	5,353,000	6,237,000
Occupational Health			6,000	47,000	240,000	293,000
Chronic Diseases			27,000	172,000	3,403,000	3,602,000
Vital Statistics			15,000	147,000	2,483,000(f)	2,645,000
Preventable Diseases			10,000	13,000	437,000	460,000
Solid Waste Disposal			102,000	67,000	904,000	1,073,000
Dental Health			3,000	24,000	391,000	418,000
Grants and Subsidies to Localities		$22,500,000				22,500,000
		$22,500,000	$353,000	$1,489,000	$17,007,000	$41,349,000
Departmental Indirect Costs						
Office of the Commissioner				288,100		288,100
Financial Management				235,600		235,600
Operation and Maintenance of Plant				895,900		895,900
Administrative Services				126,400		126,400
Equipment Use Charges				96,300		96,300
Building Use Charges				157,600		157,600
Total Departmental Costs (d)		$22,500,000	$353,000	$3,288,900	$17,007,000	$[illegible]8,900
Services Furnished (But Not Billed) By Other State Agencies (e)						
Accounting Services	$86,000			86,000		86,000
Personnel Administration	9,000			9,000		9,000
Centralized Purchasing	21,000			21,000		21,000
	$116,000					
		$22,500,000	$353,000	$3,404,900	$17,007,000	$43,261,900

EXHIBIT B—Explanatory Notes

(a) In this example, it is assumed that grants and subsidies to localities do not constitute costs and do not generate significant direct and/or indirect costs. However, if the grantee incurs a significant amount of direct and/or indirect costs in administering the grants and subsidies to localities, then this function should be assessed for its equitable share of those costs.

(b) The Expenditures Not Allowable represent costs of capital expenditures and other costs which are unallowable in accordance with the cost principles and should be excluded from the computation of the indirect cost rate. However, indirect costs should be allocated to Expenditures Not Allowable for those expenditures that either generated or benefited from the indirect costs where the dollar effect is sufficiently material to warrant such allocation.

(c) Under the simplified method, a determination is first made as to which functions are direct functions (illustrated under the heading Divisions/Bureaus) and which functions are indirect functions (illustrated under the heading Departmental Indirect Costs). Within the heading Divisions/Bureaus, costs are identified as either (1) Indirect Costs, or as (2) Expenditures For All Other Purposes, after eliminating Exclusions and Expenditures Not Allowable. An example of a division or bureau indirect cost may, for instance, in the Environmental Health Division, include such costs as salaries and expenses of the Division Head, the Assistant Division Head, and their secretaries, as well as the salaries and expense of other sub-units performing staff or service functions within the Division.

(d) Total Departmental Costs should be reconciled to and accompanied by a copy of the financial statements of the grantee agency.

(e) The costs of Services Furnished (But Not Billed) By Other State Agencies must be in agreement with the amounts shown on the Consolidated State-Wide Cost Allocation Plan—Exhibit D. In this illustration, costs of $116,000 allocated from the Consolidated State-Wide Cost Allocation Plan represent costs that are allocable to the entire Department.

(f) This amount includes $53,000 for data processing Services Furnished (And Billed) By Other State Agencies for programs within the Division of Vital Statistics. See Exhibit D.

*This is a sample only and is not intended to prescribe methods of charging costs. Amounts may be rounded off to the nearest $100.

DESCRIPTION OF EXHIBIT B–1

The totals from Exhibit B are brought forward to this Exhibit. The indirect cost rate is expressed as a percentage resulting from the ratio of allowable indirect costs ($3,404,900) to allowable expenditures for all other purposes ($17,007,000). In the example set forth in Exhibit B this produces an indirect cost rate of 20.0%, applicable to total direct costs, less capital expenditures.

EXHIBIT B-1

SAMPLE INDIRECT COST RATE PROPOSAL FORMAT-SIMPLIFIED METHOD*

STATE X

DEPARTMENT OF HEALTH

FOR THE YEAR ENDED JUNE 30, 19...

	Total	Less: Exclusions and Expenditures Not Allowable	Indirect Costs	Expenditures for All Other Purposes
TOTALS (Exhibit B)	$43,264,900	$22,853,000	$3,404,900 (A)	$17,007,000 (B)

Computation of Indirect Cost Rate

$$(A) \div (B) = \frac{\$3,404,900}{\$17,007,000} = \text{Indirect Cost Rate of 20\% of total direct costs less capital expenditures}$$

*This is a sample only and is not intended to prescribe methods of charging costs.

DESCRIPTION OF EXHIBIT C

Exhibit C illustrates the distribution of indirect costs to functional Divisions or Bureaus in order to determine separate indirect cost rates applicable to each Division/Bureau. This distribution method permits more definitive costing in those instances where operating differences between Divisions/Bureaus are material in amount and would warrant the additional computations necessary.

This computation recognizes indirect costs of (1) each Division and Bureau, (2) the Department, as well as the cost of Services Furnished (But Not Billed) By Other State Agencies. These indirect costs are allocated to the functional Divisions/Bureaus on bases which most fairly give effect to either those Divisions/Bureaus that generated the cost or those Divisions/Bureaus that benefit from the cost. Indirect costs of the Divisions/Bureaus, if identified, need not be allocated since they are already recorded as indirect costs of their respective Divisions/Bureaus. For example, accounting services furnished by other State agencies may be allocated to the Divisions/Bureaus based on the total direct costs incurred by the Divisions/Bureaus, while personnel administration may be allocated on a base of direct salaries and wages.

Indirect costs allocated from the Department and from other agencies are added to indirect costs incurred by each of the functional Divisions/Bureaus to arrive at total indirect costs for each of the Divisions/Bureaus. A rate is then developed for each of the functional Divisions/Bureaus by relating the indirect costs to the direct salaries and wages or total direct costs, excluding capital expenditures, for each of the Divisions/Bureaus.

EXHIBIT C

SAMPLE INDIRECT COST PROPOSAL FORMAT—MULTIPLE RATE METHOD*

STATE X

DEPARTMENT OF HEALTH

FOR THE YEAR ENDED JUNE 30, 19..

	Allocation Base (a)	Total Indirect Costs (b)	Other State Agencies (c) (h)			Use Charges		Departmental Costs (d) (h)				Total Indirect Expense
			Accounting	Personnel	Supplies	Equipment	Buildings	O&M	Adm.	Fin. Mgmt.	Off. Comm.	
Services Furnished (But Not Billed) By Other State Agencies (f)												
Accounting Services	Total Direct Cost	$ 86,000 (e)	$(86,000)									
Personnel Administration	Direct Sal & Wages	9,000		$(9,000)								
Centralized Purchasing	$ of Supplies requisitioned	21,000			$(21,000)							
Sub-total		$ 116,000										
Departmental Indirect Costs												
Equipment use charges	User of Equipment	$ 96,300				$(96,300)						
Building use charges	Sq. ft.	157,600					$(157,600)					
Operation and Maintenance	Sq. ft.	895,900						$(895,900)				
Administrative Services	Direct Sal. & Wages	126,400							$(126,400)			
Financial Management	Direct Sal. & Wages	235,600								$(235,600)		
Office of the Commissioner	Total Dir. Cost	288,100									$(288,100)	
Sub-total		$1,799,900										
Divisions/Bureaus												
Environmental Health		$ 175,000	19,200	1,200	3,800	20,400	15,300	87,000	17,200	32,000	64,300	$ 435,400
Maternal & Child Health		844,000	27,100	3,500	5,600	19,800	91,800	521,900	48,500	90,400	90,700	1,743,300
Occupational Health		47,000	1,200	100	700	900	4,600	26,100	1,500	2,900	4,100	89,100
Chronic Diseases		172,000	17,200	1,900	3,500	12,500	19,900	113,000	26,500	49,300	57,600	473,400
Vital Statistics		147,000	12,500	1,300	2,900	37,200	18,000	73,900	18,800	35,100	42,100	383,800
Preventable Diseases		13,000	2,200	200	900	500	3,800	21,800	2,600	4,800	7,400	57,200
Solid Waste Disposal		67,000	4,600	600	2,500	4,600	5,400	30,400	8,600	16,000	15,300	155,000
Dental Health		24,000	2,000	200	1,100	400	2,800	21,800	2,700	5,100	6,600	67,700
Grants and Subsidies to Localities		(h)										
Sub-total		$1,489,000										
Exclusions		(h)										
		$3,404,900	— 0 —	— 0 —	— 0 —	— 0 —	— 0 —	— 0 —	— 0 —	— 0 —	— 0 —	$3,404,900
												(g)

Exhibit C—Explanatory Notes

(a) The allocation bases used were selected as reasonable and applicable under the circumstances. Other bases would be just as acceptable if they represented a fair measure of cost generation or cost benefit.

(b) Services Furnished (But Not Billed) By Other State Agencies and indirect costs at the Department level are included in the computation of the total indirect cost of each functional Division/Bureau.

(c) Services Furnished (But Not Billed) By Other State Agencies are allocated to each functional Division/Bureau. A further allocation of these services could have been made to departmental service and administrative divisions if the results of such allocation would have a material effect on the rates to be computed. In the samples presented, the dollar effect is not sufficiently material to warrant the additional allocation.

(d) Departmental Indirect Costs are allocated to each functional Division/Bureau. Certain departmental service divisions, such as operation and maintenance, could have been allocated to other service or administrative divisions if the results of such allocation would have a material effect on the rates to be computed. In the sample presented, the dollar effect is not sufficiently material to warrant the additional allocation.

(e) Accounting services rendered by other agencies are allocated to the functional Divisions/Bureaus on the basis of total direct costs. Exhibit C-1, Column C shows the total direct cost for the functional Divisions/Bureaus to be $17,007,000. The Environmental Health Division has incurred total direct costs of $3,796,000. This ratio ($3,796,000/$17,007,000=22.32%) applied to the accounting services furnished ($86,000 x 22.32%) results in an allocation of $19,200 to the Environmental Health Division. This method of allocation is used to arrive at the amount of accounting services to be allocated to each functional Division/Bureau.

(f) The costs of Services Furnished (But Not Billed) By Other State Agencies is derived from the Consolidated State-Wide Cost Allocation Plan shown in Exhibit D. In this illustration, costs of $116,000 allocated from the Consolidated State-Wide Cost Allocation Plan represent costs that are allocable to the entire Department.

(g) The total indirect expenses developed for each Division/Bureau are carried forward to Exhibit C-1, where the relationship between the indirect expenses and the direct expenses of each of the Divisions/Bureaus is used to establish overhead rates.

(h) Both (1) Services Furnished (But Not Billed) By Other State Agencies and, (2) Departmental Indirect Costs should be allocated to Exclusions and Expenditures Not Allowable where these classifications either generated or benefited from the indirect costs and the dollar effect is sufficiently material to warrant the additional allocation.

*This is a sample only and is not intended to prescribe methods of charging costs. Amounts may be rounded off to the nearest $100.

DESCRIPTION OF EXHIBIT C-1

The total indirect costs developed for each of the Divisions Bureaus are brought forward to this Exhibit. The ratio of indirect costs to direct salaries and wages or indirect costs to total direct costs less capital expenditures for each of the Divisions and Bureaus is used to arrive at indirect cost rates (expressed as percentages). For example, the Environmental Health Division has accumulated indirect costs of $435,100 (Column A) and direct salaries and wages of $1,610,000 (Column B). The ratio of Column A to Column B results in an indirect cost rate of 27.0%. This exhibit shows rates developed for each Division Bureau on two bases, direct salaries and wages and total direct costs less capital expenditures. Rates should generally be submitted on one base only, using that base which results in a more equitable distribution of indirect costs to direct activities.

EXHIBIT C-1

SAMPLE INDIRECT COST RATE FORMAT-MULTIPLE RATE METHOD*

STATE X

DEPARTMENT OF HEALTH

FOR THE YEAR ENDED JUNE 30, 19

Divisions/Bureaus	Total Indirect Expenses (c)	Direct Salaries & Wages	All Other Direct Costs Less Capital Expenditures	Total Direct Costs Less Capital Expenditures	Indirect Cost Rate (b)	
					Direct Salaries & Wages	Direct Costs Less Capital Expenditures
	(A)	(B)		(C)	(A÷B)	(A÷C)
Environmental Health	$ 435,400	$ 1,610,000	$2,186,000	$ 3,796,000	27.0%	11.5%
Maternal & Child Health	1,743,300	4,550,000	803,000	5,353,000	38.3%	32.6%
Occupational Health	89,100	143,000	97,000	240,000	62.3%	37.1%
Chronic Diseases	473,400	2,484,000	919,000	3,403,000	19.1%	13.9%
Vital Statistics	383,800	1,764,000	719,000(a)	2,483,000	21.8%	15.5%
Preventable Diseases	57,200	243,000	194,000	437,000	23.5%	13.1%
Solid Waste Disposal	155,000	804,000	100,000	904,000	19.3%	17.1%
Dental Health	67,700	258,000	133,000	391,000	26.2%	17.3%
	$3,404,900	$11,856,000	$5,151,000	$17,007,000		

EXHIBIT C-1—EXPLANATORY NOTES

(a) This amount includes $53,000 for data processing services furnished (and billed) by other State agencies for programs within the Division of Vital Statistics. See Exhibit D.

(b) Only one method should generally be selected by the Department of Health. The two methods shown are merely illustrative, whichever method is selected should generally be used for all Divisions/Bureaus.

(c) Brought forward from Exhibit C.

*This is a sample only and is not intended to prescribe methods of charging costs. Amounts may be rounded off to the nearest $100.

DESCRIPTION OF EXHIBIT D

This Exhibit illustrates a summary of a Consolidated State-Wide Cost Allocation Plan. It consists of two parts:

(1) Special services to specific programs—summarizing the allocation of costs which have been treated as direct charges to individual programs or projects, and

(2) General Services—summarizing the allocations of costs which lend themselves to treatment as indirect costs

The amounts allocable to the Department of Health are carried forward to Exhibits A, B and C, where they are combined with the Department of Health's own expenditures in computing its indirect cost rate(s).

Only a few of the many possible service costs have been shown in this Exhibit. A State government cost allocation plan may include any other service costs which are allowable under the cost principles, and for which documentation can be provided.

Each type of cost claimed should be supported by appropriate schedules and other documentations sufficient to provide a reasonable basis for acceptance. Because of space limitations, an illustration (Exhibit E) has been provided in this brochure for only one type of cost —Centralized Purchasing Services, furnished by the State Public Buildings and Supply Agency.

EXHIBIT D

SAMPLE FORMAT OF CONSOLIDATED STATE-WIDE COST ALLOCATION PLAN*

SUMMARY OF PLAN

STATE X

FOR THE YEAR ENDED JUNE 30, 19...

Name of Agency Furnishing Services and Type of Service	Supporting Schedule	State Agencies Receiving Services From Other Agencies (a)					
		Department of Health	Department of Education	Department of Mental Health	Department of Social Welfare	All other	Total
Special Services to Specific Programs							
Bureau of Data Processing (Data Processing of a Non-Administrative Nature)	(b)	$53,000	-------	$1[illegible],000	$25,000	$105,000	$203,000
Other	(b)	-------	$75,000	0,000	-------	165,000	300,000
		$53,000	$75,000	$40,000	$25,000	$270,000	$503,000
General Services							
Public Buildings and Supply Agency (Centralized Purchasing)	EXHIBIT E	$21,000	$1[illegible],000	$15,000	$15,000	$139,000	$323,000
Civil Service Administration (Personnel Administration)	(b)	9,000	30,000	3,000	5,000	90,000	137,000
State Comptroller (Accounting Services, incl. Payrolls, Disbursing, etc.)	(b)	86,000	183,000	47,000	36,000	374,000	696,000
		$116,000	$313,000	$65,000	$59,000	$603,000	$1,156,000

(a) Separate column headings are needed only for those Departments or other organizational units which are recipients of federal grants and contracts. However, identification of the other departments should be included in the documentation supporting each type of service claimed.

(b) Because of space limitations, an illustration has been provided in this brochure only for the allocation of centralized purchasing services furnished by the state's purchasing agency.

*This is a sample only and is not intended to prescribe methods of charging costs. Amounts may be rounded off to the nearest $100.

DESCRIPTION OF EXHIBIT E

This Exhibit illustrates the support for the allocation of centralized purchasing services included in Exhibit D.

Part 1 shows the costs of the Public Buildings and Supply Agency which furnishes the purchasing service to all other State agencies. In addition, this agency is responsible for the design and construction of all State buildings. Only the costs directly associated with the purchasing (and related distribution) function are considered allowable (i.e., Division of Purchasing and Division of Supply Distribution).

Part 2 shows the allocation of the $323,000 of allowable cost, in proportion to the dollar value of the supplies requisitioned during the year. Other bases for distribution may be used if more appropriate. Documentation of the percentage allocations should be submitted as part of the plan.

EXHIBIT E

SAMPLE FORMAT OF CONSOLIDATED STATE-WIDE COST ALLOCATION PLAN*

CENTRALIZED PURCHASING SERVICES

PUBLIC BUILDINGS AND SUPPLY AGENCY

STATE X

FOR THE YEAR ENDED JUNE 30, 19..

	Total	Not Allowable	Allowable
Part 1—Costs To Be Allocated			
Office of the Commissioner	$100,000	$100,000	
Division of Supply Distribution	150,000		$150,000
Division of Purchasing	173,000		173,000
Division of Building Design	150,000	150,000	
Division of Construction	300,000	300,000	
Total	$873,000	$550,000	$323,000

Part 2—Allocation of Costs

Basis—Dollar value of supplies requisitioned

Agency	%	Allocation
Department of Health	6.5%	$21,000
Department of Education	40.2	130,000
Department of Mental Health	4.6	15,000
Department of Social Welfare	5.6	18,000
Department of Highways	10.3	33,500
Department of Natural Resources	2.7	8,500
Department of Agriculture	5.0	16,500
Department of Commerce	3.2	10,500
Department of Motor Vehicles	2.2	7,000
Department of Labor	3.3	10,500
Other Executive Departments	14.9	48,000
Legislative	.5	1,500
Judiciary	1.0	3,000
Total	100.0%	$323,000

*This is a sample only and is not intended to prescribe methods of charging costs. Amounts may be rounded off to the nearest $100.

APPENDIX 3

SAMPLE FORM

CERTIFICATION BY STATE BUDGET OFFICER OR OTHER RESPONSIBLE STATE OFFICIAL—STATE-WIDE COST ALLOCATION PLAN

I hereby certify that the information contained in the _____
(Name of State)

State-wide cost allocation plan for the fiscal year ended _____
(Month-date-year)

is correct and that the State of _____ has authorized me,
(Name of State)

as its representative, to file this plan. I further certify that a consistent approach has been followed in treating a given type of cost as direct or indirect and that in no case have costs charged as direct to Federal programs been included in the indirect costs reflected in the plan which I have submitted.

_____
Signature

_____
Title

_____
Date

APPENDIX 3

SAMPLE FORM

CERTIFICATION BY STATE BUDGET OFFICER OR OTHER RESPONSIBLE STATE OFFICIAL—STATE-WIDE COST ALLOCATION PLAN

I hereby certify that the information contained in the _____
(Name of State)

State-wide cost allocation plan for the fiscal year ended _____
(Month-date-year)

is correct and that the State of _____ has authorized me,
(Name of State)

as its representative, to file this plan. I further certify that a consistent approach has been followed in treating a given type of cost as direct or indirect and that in no case have costs charged as direct to Federal programs been included in the indirect costs reflected in the plan which I have submitted.

_____
Signature

_____
Title

_____
Date

APPENDIX 5

SUGGESTED BASES FOR COST DISTRIBUTION

Following are suggested bases for distributing joint costs of certain central-type services to State departments or agencies and to projects and programs utilizing these services. The suggested bases are not mandatory for use if they are not suitable for the particular services involved. Any method of distribution can be used which will produce an equitable distribution of cost. In selecting one method over another, consideration should be given to the additional effort required to achieve a greater degree of accuracy.

Type of Service	*Suggested Bases for Allocation*
Accounting	Total dollar volume or number of transactions processed.
Auditing	Direct audit hours.
Budgeting	Direct hours of identifiable services of employees of central budget.
Building lease management	Number of leases.
Data processing	Machine hours.
Disbursing service	Number of checks or warrants issued.
Employees retirement system administration	Dollar contributions to fund or number of employees contributing.
Insurance management service	Dollar value of insurance premiums.
Legal Services	Direct hours.
Mail and messenger service	Number of documents handled or employees served.
Motor pool costs including automotive management	Miles driven and/or days used.
Office machine and equipment maintenance repairs	Direct hours.
Office space use and related costs (heat, light, janitor service, etc.)	Sq. ft. of space occupied.
Organization and management services	Direct hours.
Payroll services	Number of employees.
Personnel administration	Number of employees or salaries and wages.
Printing and reproduction	Direct hours, job basis, pages printed, etc.
Procurement service	Total dollar volume or number of transactions processed.
Local telephone	Number of telephone instruments.
Health services	Number of employees.
Fidelity bonding program	Employees subject to bond.

APPENDIX 6

FEDERAL AGENCIES AND THEIR NEGOTIATION COGNIZANCE ASSIGNMENTS

The Department of Health, Education, and Welfare is the Federal agency responsible for the approval of State-wide cost allocation plans. Amounts (or rates) approved by the Department of Health, Education, and Welfare for apportionment to State operating departments conducting Federally supported programs will be recognized by all Federal agencies in the determination of State operating department costs chargeable against Federal programs.

A separate publication is available listing those State agencies where the Department of Health, Education and Welfare is responsible for the negotiation of indirect costs of that State's operating departments. This publication may be obtained from the Division of Grants Administration Policy at the address shown below. Federal agency responsibility will be determined on the basis of the greatest dollar amount of Federal funds received by a State in its fiscal year. State organizations receiving Federal grants and contracts requiring indirect cost determinations which are not listed in the separate publication of the Department of Health, Education and Welfare, should contact the Federal agency from which it has received the greatest dollar amount of grants and contracts (for the most current State fiscal year) for assistance. In determining which Federal agency has cognizance, the State should make a determination based on Federal funds received by a State department or agency including that department's or agency's lower tier divisions and bureaus. Changes in cognizance brought about by changes in dollar volume of activity by Federal agencies should be brought to the attention of the concerned Federal agencies. In the Department of Health, Education, and Welfare, the office responsible for indirect cost determinations is the Division of Grants Administration Policy, Office of the Assistant Secretary, Comptroller, 330 Independence Avenue, S.W., Washington, D.C. 20201. Addresses of other Federal agencies are listed below:

Chief
Finance Division
Federal Highway Administration
U.S. Department of Transportation
1717 H Street, N.W.
Washington, D.C. 20591

Deputy Director
Office of Budget and Finance
U.S. Department of Agriculture
14th and Independence Avenue, S. W.
Washington, D.C. 20250

Program Management Division
Community Action Program, Room 536
Office of Program Operations
Office of Economic Opportunity
1200-19th Street, N.W.
Washington, D.C. 20506

Director
Program Operations Division
Urban Management Assistance
Administration
Room 7220A
U.S. Department of Housing and
Urban Development
7th and D Street, S.W.
Washington, D.C. 20410

Director
Office of Management Inspection and Audit
U.S. Department of Justice
10th and Constitution Avenue, N.W.
Washington, D.C. 20530

Chief
Financial Assistance Policy Division
Office of the Secretary, Room 5816A
U.S. Department of Commerce
14th and Constitution Avenue, N.W.
Washington, D.C. 20230

Assistant Manpower Administrator
for Administration
Manpower Administration
U.S. Department of Labor
14th and Constitution Avenue, N.W.
Washington, D.C. 20210
Attention: Circular A–87 Liaison

Assistant Director
Contract and Audit Operations
Office of Survey and Review, Room 5226
U.S. Department of Interior
18th & C Street, N.W.
Washington, D.C. 20240

Director of Audit
Office of Civil Defense, Room 1C–514
Office of the Secretary of the Army
Department of Defense
The Pentagon
Washington, D.C. 20310

Michigan Indirect Cost Plan

Indirect Cost Materials and Responses from
Michigan Department of Education

Mr. Earl Hopps
Supervisor of Accounting Program

Question: The application of indirect cost rates can vary from the past funding of activities of a state department. What are the federal recommendations for easing or allowing a timely transition from a direct charge basis to an indirect cost method?

Response:

Most of us operate under the appropriations of our respective state legislatures. Operations which originally were self-operating organizational entities may have over a period of time been incorporated in part into centralized functional organizational units which, when subject to an indirect cost approach, appear to be carrying a disproportionate share of the financial cost. Adjustments incorporated into the budget process may require 18 to 24 months to be reflected into appropriations. The problems one might expect include:

1) The informing of organizational units that they must reduce their program budget because of administrative indirect cost assignment.

2) The processing of revised budget data which may require greater state funding for some organizational units while corresponding reductions may be non-existent.

3) Convincing the management policy groups (legislative, administrative) that such realignments are essential despite the financial realities of expanding demands and lessening fund availability from both state and federal sources.

In view of the federal implementation date of July 1, 1972, it would appear that the only solution is one of minimizing the cost remaining in the indirect cost centers by the greatest utilization of direct cost assignment even though these costs may be functionally assignable as indirect costs; i.e., subsidiary grant record maintenance costs may be identified as specific programs.

Question: Discuss the "roll forward" adjustment.

Response:

The Department has been granted fixed rates for fiscal 1973. The fixed rate in the agreement is based on an estimate of the costs which will be incurred during the period for which the rate applies. When the actual costs for such period have been determined, an adjustment will be made in the negotiation following such determination to compensate for the difference between that cost used to establish the fixed rate and that which would have been used if the actual costs were known at the time.

The attached example demonstrates the roll forward adjustment. The negotiated rate for 1972 is corrected to actual by the adjustment of the 1974 rate.

Question: Why are some LEA programs funded with a restricted rate while others carry their full share of indirect costs?

Response:

The 1969 amendments to Public Law 91-230, Section 4146b, states:

"The Commissioner shall permit local educational agencies to use organized and systematic approaches in determining

ROLL FORWARD COMPUTATION

	FY 72	FY 73	FY 74	FY 75
Fixed Rate Per Negotiation:	10%	10%	11.3%*	9.9%
Actual Experience for Accounting Period:				
Direct Costs	$4,938,795	$4,880,450	$5,110,525	$5,075,200
Net Allowable Indirect Costs	526,430	486,675	544,428	537,000
Recovery of Indirect Costs:				
Actual for Accounting Period	526,430	486,675	544,428	537,000
Estimated per Negative Fixed Rate	493,880	488,045	577,489	502,445
Under (Over) Recovery	32,550	(1,370)	(3,061)	34,555
Adjusted Indirect Costs:				
Actual for Accounting Period	526,430	486,675	544,428	537,000
Under (Over) Recovery	32,550	(1,370)	(33,061)	34,555
Deletion of 2 years Prior Roll Forward Adjustment	-0-	-0-	32,550	(1,370)
Total Indirect Cost	$ 558,980	$ 485,305	$ 543,917	$ 570,185
Adjusted Rate:				
Adjusted Rate = Total Indirect Cost / Actual Direct Cost =	$ 558,980 / $4,938,795	$ 485,305 / $4,880,450	$ 543,917 / $5,110,525	$ 570,185 / $5,075,200
Adjusted Rate =	11.3%*	9.9%	10.6%	11.2%
	(Applied to FY 74)	(Applied to FY 75)	(Applied to FY 76)	(Applied to FY 77)

*The actual rate for FY 1972 was 10.65%. Therefore we under recovered the indirect cost by 0.65% (10.65% – 10.0%). In proposing our indirect rate for FY 1974 we make up for this deficiency by adding the 0.65% to the actual 10.65% Indirect Rate thereby proposing a rate of 11.3% for FY 1974.

cost allocation, measurement, and report . . . that such approaches are consistent with criteria prescribed by the comptroller general of the United States . . ."

Circular A-87 established principles designed to provide that federally assisted programs bear their fair share of costs recognized under these principles except where restricted or prohibited by law.

The Elementary and Secondary Education Act, Title I, requires that:

"Federal funds made available under this title will be so used as to (i) supplement and . . . increase the level of funds . . . (ii) in no case, as to supplant such funds from non-federal sources . . ."

This is the justification used to develop the two types of rates:

1) Restricted
2) Unrestricted

The unrestricted rates are applicable to those programs which do not contain the supplement-supplant language.

Question: What provisions are being incorporated in the revisions to Handbook II to facilitate the development of indirect cost rates for LEA's?

Response:

Handbook II incorporates provisions which allow greater analysis of cost data and the establishment of cost centers. However, it does not include provision to accumulate distribution units and, therefore, becomes basically an actual cost system. Any manual of this type must be general in design to accommodate the vast differences in the abilities or organizations which will use it. Consequently, it would be extremely improbable that the manual contain any specific material regarding indirect cost development.

Chapter VI*, Indirect Costs and Proration, is a new addition to Handbook II and should assist local school districts in the areas of indirect cost identification and allocation. The draft dated June, 1972, is the last I have seen, and I do not know the current status of this handbook.

*Page 142

Question: What phases of school activity are considered indirect cost pools? For instance, would an assistant superintendent for curriculum be a part of a direct cost pool or an indirect cost pool? Discuss other central office operations!

Response:

The basic criteria to be applied when reviewing central office operations would be the determination of the scope of responsibility assigned to the position under review. A curriculum director with district wide responsibility would be included within the indirect cost category, whereas a central projects curriculum position would require the direct assignment to the specific central programs.

A review of the common titles assigned to positions in central administration in Michigan has produced three categories:

1) Those that would fall into an indirect cost eligible to restricted and non-restricted,

2) Indirect costs assignable to indirect only, and

3) The direct or indirect with the requirement that there be benefits to grants and contracts.

CENTRAL ADMINISTRATIVE POSITIONS

Direct	Indirect	
Elementary Coordinator	1	General Operations
Director Guidance	1	Business Affairs
Athletic Director	1	Personnel
Instruction	1	Assistant Superintendent (General)
Elementary Education	1	Administrative Assistant
Vocational Technical	2	Director of Building & Grounds
Cafeterias	1	Elementary Business & Personnel
Pupil Personnel	1	Finance
Special Programs	3	Research
Fine Arts	1	Deputy Superintendent
Director Community Education	1	Controller
Outdoor Center	1	Finance & Accounting
Community School Coordinator	2	Building & Grounds
Consumer Education	1	Accountant
Instructional Materials	2	Physical Plant
Libraries	1	Purchasing Agent
Recreation	2	Facilities and Service
Human Relations	2	Maintenance
Elementary Consultant	3	Research and Development
Grant Programs	2	Ground Superintendent
Special Education	1	Budget and Purchasing
Curriculum	3	Research & Testing Service
Transportation	1	Employee Relations
Reading	2	School Plant Planning
Foci Service	1	Purchasing & Supply Management
Director Music	3	Data Research Director
Title III	2	Custodial Services
Attendance Officer	1	Business & Finance
Legislation & Federal Projects	1	Office Manager
Associate Consultant	1	Business Administration
Audio Visual	1	Data Processing
Dean of College	1	Treasurer & Comptroller
Adult and Vocational Education	2	Engineering & Operations
Adult and Continuing Education	2	Plant Construction & Rehabilitation
Special Project Coordinator	3	Research & Evaluation
State-Federal Affairs	1	Buyer
Information Services	2	Operating Services
Publications and Parent Group Relations	1	Systems Programmer
Public Relations	1	Labor Relation
Information and Communication	3	Planner-Expediter
Community Relations		

1 Indirect Cost - Restricted and Unrestricted
2 Indirect Cost - Unrestricted Only
3 Direct or Indirect - Requirement to be indirect that there be benefits to grants and contracts

Question: How would a situation where a part-time administrator in the business office and a part-time teacher be handled in an indirect cost rate.

Response:

To accommodate a situation of this kind, the person would be direct costed into the two major categories of teacher and administrator in accordance with the amount of time spent in each activity. The added activity would then be incorporated into the indirect cost category and the teaching portion of the time would be charged direct. Each would be included in the development of the indirect cost rate.

Question: What is the significance of the term "district wide activity" in the area of central office administration?

Response:

"District wide activity" becomes the basic criteria which is applied to the positions in central office administration when determining whether the position or activity is assignable as direct or indirect cost. The current Handbook II uses the term "system wide activity" and is not confined to one school, subject, or narrow phase of school activity.

In the revision of Handbook II, activities performed by assistants, such as deputies, associate, and assistant superintendents, in general direction and management of all affairs of the school system are considered under the function General Administration - Office of the Superintendent.

Those not having "district wide activity" must be associated with their specific function.

Question: When a rate is a predetermined fixed rate and the rate based on actual costs would be less, would there be some adjustment made for the difference?

Response:

The response to this question was covered under question 5; and of course, the difference between the fixed rate and the actual costs would become an element of the roll forward adjustment. Therefore, this would become important in the development of a subsequent year's rate.

MICHIGAN DEPARTMENT OF EDUCATION
Department Services
Lansing, Michigan 48902

INDIRECT COST RATE INSTRUCTIONS

General

An indirect cost rate is used to determine the amount of indirect costs each program should bear. Generally, it is the ratio of indirect costs to direct costs based upon the actual expenditures of a local educational agency recorded in accordance with recommended accounting principles for school districts, i.e., the modified accrual or full accrual basis of accounting. The recovery of indirect costs incurred by a federally funded program must be accomplished by a rate or percentage method in those programs in which indirect costs are eligible expenditures. The use of an indirect cost rate is allowable in those state programs which provide for the recovery of such costs. In addition, indirect costs determined by the rate method may be considered as the local agency's contribution in those Federal and State programs which require a local effort.

The indirect costs of a program are those costs not readily identified with a specific program but, nevertheless, are incurred by the local educational agency for the joint benefit of all programs. In terms of the Finance Accounting Manual for Michigan School Districts, Bulletin 1022, they include, with certain legal exclusions, Administration, Operation, Maintenance and Fixed Charges.

Utilization is made by applying the appropriate rate as determined from the computation schedule to the direct costs of the program, see example. However, during the budgeting process it must be remembered that use of the rate does not increase the amount of the grant.

The financial data from which the rates are computed is taken from the school district's audited Annual Financial Report, DS-4169 (Form B). The time required for the audit and preparation of Form B is such that the rate is computed from the audited expenditures of the second preceding fiscal year to that in which the rate is applicable. For example, the rate computed from the Form B for the year ended June 30, 1971 is the rate which will be in use during the year beginning July 1, 1972 and ending June 30, 1973. Programs which extend beyond June 30 are required to adopt the rate approved for the fiscal year in which that portion of the program is operated. The fiscal year to which the rate applies is indicated in the heading of rate computation Form (RO 415), the rate is applicable during that fiscal period only. In addition, programs operated in any one fiscal year may apply only the approved rate.

The legislation governing certain federally funded programs requires that federal funds "supplement and in no case supplant" local efforts. For these

restricted programs this has been interpreted to mean that only the costs of district wide activities, namely Administration and selected Fixed Charges, are eligible as indirect costs for rate computation purposes. The most common restricted programs, administered by the State agency, in which indirect costs are recoverable are: E.S.E.A. Titles I, III, VI and Vocational Education - Title I,B. Indirect costs of these programs may be recovered only at the rate computed for restricted programs, Column A, of the computation schedule.

In addition, there are programs which prohibit or limit the recovery of indirect costs. If there is a question in this regard it is suggested that reference be made to the program guidelines or that the Department of Education be contacted.

Costs must be treated consistently (i.e., expenditures which are considered indirect for rate computation purpose may not be considered a direct program cost). For example, of two or more positions of similar responsibility, such as administrative assistants, accountants or office managers exist, all positions at that level must be classified as either direct or indirect. For example, if an administrative assistant is reported on Form B as 2100 Administration, (indirect), all other Administrative Assistants must be classified only as an indirect cost in the 2100 account services. The principal physical location of personnel does not necessarily identify the correct expenditure classification (Instruction, Administration, etc.) however, the project expenditure classification must be consistent with that of the Form B.

Your indirect cost rate may be found at the bottom of the attached Indirect Cost Rate Computation for Local School Districts, RO 415.

The rates are computed as follows:

Unrestricted $\quad \dfrac{\text{Col. B}}{\text{Col. C}} = \text{Rate}$

Restricted $\quad \dfrac{\text{Col. A}}{\text{Col. C + Col. B - Col. A}} = \text{Rate}$

(In the restricted programs, the unallowed indirect costs are, in effect, considered direct costs.)

In general, records and other supporting documentation must be retained for 5 years after the close of the fiscal year in which the expenditure was made or until notified that the records are no longer needed. The exception to this is that records involved in a Department of Health, Education and Welfare audit claim shall be reatined until that claim has been resolved.

Budgeting For An Indirect Cost Rate

Restricted Programs

Approved Grant	$20,000
Indirect Cost Rate	3.06%
Direct Costs	$19,406

The $19,406 is computed by dividing $20,000 by 1.0306 (indirect cost rate plus 100%). $19,406 is the maximum amount that can be budgeted for direct costs if maximum indirect charges are budgeted and the total grant is applied for.

A sample E.S.E.A. Title I budget, utilizing the indirect cost rate, might be as follows:

200 Instruction	$15,256
400 Health	750
500 Transportation	500
800 Fixed Charges	1,650
900 Food Services	750
1100 Community Services	500
Indirect Costs ($19,406 x 3.06%)	594
	$20,000

Unrestricted Programs

Approved Grant	$20,000
Indirect Cost Rate	26.40%
Direct Costs	$15,823

The $15,823 is computed by dividing $20,000 by 1.2640 (total indirect cost rate plus 100%).

A sample unrestricted program budget using separate indirect rates might be as follows:

Instruction	$12,173
Attendance	1,000
Transportation	800
Fixed Charges	1,350
Food Service	500
Indirect Cost	4,177
	$20,000

When a budget for a project (with an applicable restricted or unrestricted rate) includes a line item for capital outlay, the computation of the amount available for direct program costs must be preceded by a reduction of the amount of capital outlay from the grant amount:

Approved Grant	$20,000
Capital Outlay	2,000
Indirect Cost Rate	26.40%
Direct Costs	$14,241

The $14,241 is computed by subtracting the capital outlay from the approved grant and dividing $18,000 by 1.2640 (total indirect cost rate plus 100%).

ADJUSTMENTS

Instructions For Completing DS-4513

Circular A-87 provides that the salaries of Assistant Superintendents for general administration, the cost of operating their offices (secretary and clerical salaries, office supplies and other) and those fringe benefits, such as employee insurances, that are attendant with eligible indirect costs may be considered indirect costs for rate computation purposes. In addition, the costs of food supplies may be excluded from direct costs which reduces the formula denominator thereby improving the rate.

The Annual Financial Report (Form B), upon which the computed rate is based, does not provide data sufficient to identify these allowable adjustments. Therefore, all reported amounts in the following Form B line items have been considered direct or unallowable in the rate computation:

		Indirect Costs		Direct	Total
		Restricted	Unrestricted	Costs	Costs
2112	Salaries of Supt. Ass't.	$	$	$XX	$XX
2128	Salaries - Sec. & Clerical			XX	XX
2140	Total Supplies			XX	XX
2160	Total Other			XX	XX
2783	Insurance (Fringe Benefits)			XX	XX
3056	Food for Food Service			XX	XX

To receive adjustment, the local agency must complete Form DS-4513 and return to the Michigan Department of Education, Department Services, Box 420, Lansing, Michigan 48902. Notification of the adjusted rate will be made by the Department. The originally computed rate must be utilized until such time as notification of the adjusted rate is received.

Explanation: Enter only the eligible expenditures reported in the identified Form B line items as follows:

2112 Salaries of Ass't. Supt.(s)
2128 Salaries Sec. & Clerical
2140 Office Supplies
2160 Other

Identifiable with eligible indirect costs. Excludes costs attributable to the Supt's activities, such as the full time salary or prorated portion of his secretary.

2783 Fixed Charges - Insurance (Fringe Benefits) identifiable with salaries in the respective columns.

COSTS TO BE INCLUDED - ACCOUNT 2112 and 2128

A. Unrestricted indirect costs include those positions related to general administration of the school excluding costs attributable to the position of the superintendent and his activities, such as the full time salary or prorated portion of his secretary's position. Those positions involving accounting budgeting, payroll, personnel, purchasing, employee and public relations, etc. Do not report administrative positions (assistant superintendents and directors) as indirect costs that involve the direction and supervision of such functions as instruction, guidance, attendance, transportation, community services and student services. Secretarial and clerical employees supporting the latter positions must not be included in the indirect classification of cost. The costs of this latter group - assistant superintendents, directors and support employees - must be classified as direct charges. As such, their charges would have to be identified to cost objectives based on documented time and effort studies.

B. Two additional administrative positions must be excluded from the computation of the restricted rate - administrators and support staff involved in the maintenance and operation function.

COSTS TO BE INCLUDED - ACCOUNT 2140 and 2160

Include only those costs identifiable with the eligible postions noted above with the unrestricted and restricted indirect costs.

COSTS TO BE INCLUDED - ACCOUNT 2783

Include only those Insurance (fringe benefits) identifiable with eligible positions noted above with the unrestricted and restricted positions in the respective columns.

COSTS TO BE INCLUDED - ACCOUNT 3056

Food for Food Service (cost of food supplies)

If you have any questions, please contact the Program Control Unit, Department of Education, 1020 South Washington Avenue, Lansing, Michigan, Phone (517) 373-3350.

DS-4513
10/72

Michigan Department of Education
Department Services
PROGRAM CONTROL UNIT
Box 420 Lansing, Michigan 48902

FISCAL YEAR 1972–73 INDIRECT COST RATE ADJUSTMENTS

EDUCATIONAL AGENCY	Legal Name of School District	District Code No.	Telephone – Area Code/Local No.
	Address	City	Zip Code

MAILING INSTRUCTIONS: Return ONE copy by JANUARY 30, 1973 to the STATE address indicated above.

ACCT. NO.	ACCOUNT DESCRIPTION	INDIRECT COSTS		DIRECT COSTS
		Restricted A	Unrestricted B	C
2112	ASSISTANT SUPERINTENDENT(S) a. Salaries (See below*)	$	$	
2128	b. Secretarial and Clerical Salaries			
2140	c. Office Supplies			
2160	d. Other			
2783	FIXED CHARGES -INSURANCE (Fringe Benefits) (Associated with Indirect Salaries ONLY)			
3056	FOOD FOR FOOD SERVICE (Deducted from direct costs for rate computation purposes)			$
	TOTAL ADJUSTMENTS	$	$	$

*List positions included in the adjustment to Account 2112. Complete list on back of this form if additional space is necessary.

ASSISTANT SUPERINTENDENT(S)	
Title of Position	F.T.E. Positions

CERTIFICATION: I certify that the above adjustments are true and correct to the best of my knowledge.

Date _____ Superintendent or Authorized Official _____ (Signature)

Type Name _____

Title _____

Contact Person _____ Telephone _____ (Area Code/Local No.)

Michigan LEA Orienting Procedure

1. Utilize annual financial statement information on file with the Department.

2. Prepare LEA tentative rates.

3. Information to LEAs:

   a. Proposed rate schedule;

   b. Explanation of indirect cost and rate development;

   c. Schedule of regional meetings.

4. Regional presentation.

5. Sample LEA process:

   a. Original rate;

   b. Adjustment form;

   c. Adjusted rates.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

OFFICE OF THE SECRETARY

WASHINGTON, D.C. 20201

September 28, 1972

Honorable John W. Porter
Superintendent of Public Instruction
State of Michigan
Department of Education
Lansing, Michigan 48902

Dear Superintendent Porter:

This letter formalizes understandings reached between members of your staff and George J. Wolff relative to the Michigan State Department of Education approving indirect cost proposals of the Michigan Local Education Agencies.

The Michigan State Superintendent of Public Instruction or his designated representative within the Michigan State Department of Education is hereby delegated authority to negotiate indirect cost rates with local education agencies of the State of Michigan in conformance with the plan submitted to and approved by my office and with Office of Management and Budget Circular A-87. The rates so established will be used by the local education agencies to measure total program costs and serve as the basis for requesting indirect costs on Federal programs.

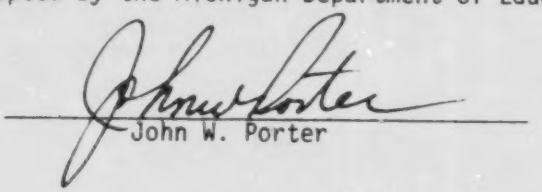
Consistent with the requirements of Circular A-87, plans approved by the Michigan State Department of Education will be subject to review by my office. It is anticipated that the Department of Health, Education and Welfare Audit Agency will select local education agencies for audit review to determine that the cost plans have been prepared and used in accordance with this delegation of authority. A copy of the plan for the Michigan State Department of Education to approve indirect cost rates for local education agencies as approved by my office is attached. The plan is subject to periodic revisions to accommodate changes in regulations or the accounting systems of local education agencies. Revisions to the plan, if necessary, will be the result of a coordinated effort by the Michigan Department of Education and the Department of Health, Education and Welfare Audit Agency, office of Education and my office.

Please note your concurrence with the content of this letter and your acceptance of this delegation of authority by countersigning the original of this letter and returning it to me retaining a copy for your files.

Sincerely yours,

Henry G. Kirschenmann, Jr.
Director, Division of Cost Policy
and Negotiation
Office of Grant Administration Policy

Accepted by the Michigan Department of Education:



John W. Porter

MICHIGAN DEPARTMENT OF EDUCATION
Department Services
Lansing, Michigan 48902

INDIRECT COST RATE INSTRUCTIONS

General

An indirect cost rate is used to determine the amount of indirect costs each program should bear. Generally, it is the ratio of indirect costs to direct costs. The recovery of indirect costs incurred by a federally funded program must be accomplished by a rate or percentage method in those programs in which indirect costs are eligible expenditures. The use of an indirect cost rate is allowable in those state programs which provide for the recovery of such costs. In addition, indirect costs determined by the rate method may be considered as the local agency's contribution in those Federal and State programs which require a local effort.

The indirect costs of a program are those costs not readily identified with a specific program but, nevertheless, are incurred by the local educational agency for the joint benefit of all programs. In terms of the State School Accounting Manual, Bulletin 1022, they include, with certain legal exclusions, Administration, Operation, Maintenance and Fixed Charges.

Utilization is made by applying the appropriate rate as determined from the computation schedule to the direct costs of the program, see example. However, during the budgeting process it must be remembered that use of the rate does not increase the amount of the grant.

The financial data, upon which the rates are based, is taken from the most recent Annual Financial Report, DS-4169 (Form B). Therefore, the data does not reflect the actual rate of the current period. An adjustment for over or under recovery of current year indirect costs will be made in a subsequent year.

The legislation governing certain federally funded programs requires that federal funds "supplement and in no case supplant" local efforts. For these restricted programs this has been interpreted to mean that only the costs of district wide activities, namely Administration and selected Fixed Charges, are eligible as indirect costs for rate computation purposes. The most common restricted programs, administered by the State agency, in which indirect costs are recoverable are: E.S.E.A. Titles I, III, VI and Vocational Education - Title I,B. Indirect costs of these programs may be recovered only at the rate computed for restricted programs, Column A, of the computation schedule. In addition, there are programs which prohibit or limit the recovery of indirect costs. If there is a question in this regard it is suggested that reference be made to the program guidelines or that the Department of Education be contacted.

It is requested that costs be classified consistently, i.e., expenditures which are considered indirect costs for rate computation purposes may not be considered direct program costs without a corresponding adjustment to the rate. Contact the Michigan Department of Education regarding adjustments for which there is no provision in these instructions.

In general, records and other supporting documentation must be retained for 5 years after the close of the fiscal year in which the expenditure was made or until notified that the records are no longer needed. The exception to this is that records involved in a Department of Health, Education and Welfare audit claim shall be retained until that claim has been resolved.

The rates are computed as follows:

$$\text{Unrestricted} \qquad \frac{\text{Col. B}}{\text{Col. C}} = \text{Rate}$$

$$\text{Restricted} \qquad \frac{\text{Col. A}}{\text{Col. C + Col. B - Col. A}} = \text{Rate}$$

(In the restricted programs, the unallowed indirect costs are, in effect, considered direct costs.)

Circular A-87 provides that the salaries of Assistant Superintendents and the cost of operating the Assistant Superintendents' offices (secretary and clerical salaries, office supplies and other) may be considered indirect costs for rate computation purposes. Also includible are those fringe benefits, such as employee insurance, that are attendant with eligible indirect costs. The Annual Financial Report (Form B), upon which the computed rate is based, does not provide data sufficient to identify these allowable indirect costs. Therefore, all reported amounts in the following Form B line items have been considered direct or unallowable in the rate computation?

		Indirect Costs Restricted	Indirect Costs Unrestricted	Direct Costs	Total Costs
2112	Salaries of Supt. Ass't.			$ XX	$ XX
2128	Salaries - Sec. & Clerical			XX	XX
2140	Total Supplies			XX	XX
2160	Total Other			XX	XX
2783	Insurance (Fringe Benefits)			XX	XX

Provision is made for the recognition of these costs at the bottom of the rate computation form, as follows:

		Column A	Column B	Column C	Column D
Adjustments					
Assistant Superintendent					
2112	Salaries	$	$	********	********
2128	Secretarial and Clerical Salaries			********	********
2140	Office Supplies			********	********
2160	Other			********	********
2786	Fixed Charges (Fringe Benefits)			********	********
TOTAL ADJUSTMENTS		$	$		

Explanation: Enter only the eligible expenditures reported in the identified Form B line items as follows:

2112 Salaries of Ass't. Supt.(s)
2128 Salaries Sec. & Clerical
2140 Office Supplies
2160 Other

Identifiable with eligible indirect costs. Excludes costs attributable to the Supt.'s activities, such as the full time salary or prorated portion of his secretary.

2787 Fixed Charges - Fringe Benefits identifiable with salaries in the respective columns.

To receive adjustment, the local agency must complete the adjustment section and return the report with adjustments to the Department, Program Control Unit of the Accounting Program. Notification of the adjusted rate will be made by the Department. The originally computed rate must be utilized until such time as notification of the adjusted rate is received.

Budgeting For An Indirect Cost Rate

Restricted Programs

Approved Grant		$ 20,000
Indirect Cost Rates		
Administration	2.31%	
*Data Processing Charges	.75	3.06%
Direct Costs		$ 19,406

*NOTE: For budgeting and reporting purposes, the rental of data processing equipment is considered to be an administrative cost.

	Direct	Indirect		Total
Administration	$	($15,823 x 2.48)	$ 392	$
		($15,823 x .70%)	111*	503
Instruction	12,173			12,173
Attendance	1,000			1,000
Transportation	800			800
Operation of Plant		($15,823 x 13.56%)	2,145	2,145
Maintenance		($15,823 x 5.73%)	907	907
Fixed Charges:				
FICA Retirement	1,350			1,350
Indirect - Insurance		($15,823 x 3.93%)	622	622
Food Service	500			500
	$15,823		$ 4,177	$20,000

* Data Processing

If you have any questions, please contact the Program Control Unit, Department of Education, 1020 South Washington Avenue, Lansing, Michigan, Ph. (517) 373-1963.

The $19,406 is computed by dividing $20,000 by 1.0306 (indirect cost rate plus 100%). $19,406 is the maximum amount that can be budgeted for direct costs if maximum indirect charges are budgeted and the total grant is applied for.

A sample E.S.E.A. Title I budget, utilizing the indirect cost rate, might be as follows:

100	Administration	$ 250
200	Instruction	15,006
400	Health	750
500	Transportation	500
800	Fixed Charges	1,650
900	Food Services	750
1100	Community Services	500
	Indirect Costs (19,406 x 3.06%)	594
		$ 20,000

Unrestricted Programs

Approved Grant		$ 20,000
Indirect Cost Rates		
Administration	2.48%	
Operation of Plant	13.56	
Maintenance	5.73	
Insurance	3.93	
Data Processing Charges	.70	
		26.40%
Direct Costs		$ 15,823

The $15,823 is computed by dividing $20,000 by 1.2640 (total indirect cost rate plus 100%). The indirect costs, budgeted at a maximum of $4,177 ($15,823 x 26.40%), may be reported as a single item as in the example for restricted programs.

A sample unrestricted program budget using separate indirect rates might be as follows:

MICHIGAN DEPARTMENT OF EDUCATION
DEPARTMENT SERVICES–SCHOOL FINANCE

RO415 INDIRECT COST RATE COMPUTATION FOR LOCAL SCHOOL DISTRICTS DATE 12-10-71

SCHOOL YEAR 1971-72

School District Name . . . Code

Account Number	Account Description	–Column A– Indirect Costs Restricted	–Column B– Indirect Costs Unrestricted	–Column C– Direct Costs	–Column D– Total Costs
1100	Total Elementary Instructional Expenses			15,772,053	15,772,053
1200	Total Secondary Instructional Expenses			14,592,045	14,592,045
1300	Total Special Educ. Instructional Expenses			2,004,934	2,004,934
1400	Total Summer School Instructional Expenses			235,496	235,496
1500	Total Adult Education Instructional Expenses			507,085	507,085
1600	Total Community College Expenses			X	X
1900	Total Unclassified Instructional Expenses			X	X
2111	Admin.–Board of Education Salaries			X	X
2112	Admin.–Salaries of Superintendent & Asst.			142,824	142,824
2113	Admin.–Salaries of Business Personnel	241,417	241,417		241,417
2114	Admin.–Salaries of Personnel Office	113,079	113,079		113,079
2115	Salaries of Centralized Research	68,490	68,490		68,490
2128	Admin.–Salaries Secretarial and Clerical			324,651	324,651
2129	Admin.–Other Administrative Salaries	76,117	76,117		76,117
2130	Admin.–Total Contracted Services for Admin.	35,686	35,686		35,686
2140	Total Administration Supplies			70,733	70,733
2160	Total Other Administrative Expenses			95,735	95,735
2200	Total Expenses for Attendance			593,905	593,905
2300	Total Expenses for Health Services			254,704	254,704
2400	Total Pupil Transportation Expenses			316,555	316,555
2500	Total Operation of Plant Expenses		5,147,466		5,147,466
2600	Total Maintenance of Plant Expenses		1,586,753	155,906	1,742,659
2781	Contributions to Retirement Funds			66,767	66,767
2782	Contributions to Social Security Fund			72,331	72,331
2783	Insurance Expenses			1,235,207	1,235,207
2784	Rental of Land and Buildings			79,545	79,545
2785	Interest on Short Term Loans			X	X
2786	Other Fixed Charges			172,800	172,800
2787	Rental of Data Processing Equipment	37,874	37,874		37,874
	Total	572,663	7,306,882	36,693,276	44,000,158
	Indirect Cost Rate Equals	1.31%	19.91%		

NOTE . . . See Instructions for Procedures Followed in Computation of Indirect Cost Rates

MICHIGAN DEPARTMENT OF EDUCATION
DEPARTMENT SERVICES–SCHOOL FINANCE
INDIRECT COST RATE COMPUTATION FOR LOCAL SCHOOL DISTRICTS
SCHOOL YEAR 1971-72

Adjustments

	Assistant Superintendent(s)				
2112	Salaries			XXXXXXXXXXXX	XXXXXXXXXXXX
2128	Secretarial and Clerical Salaries			XXXXXXXXXXXX	XXXXXXXXXXXX
2140	Office Supplies			XXXXXXXXXXXX	XXXXXXXXXXXX
2160	Other			XXXXXXXXXXXX	XXXXXXXXXXXX
2787	Fixed Charges–Fringe Benefits (Associated With Indirect Salaries Only)	_____	_____	XXXXXXXXXXXX	XXXXXXXXXXXX
	Total Adjustments				

I certify that the above additional information is true and correct to the best of my knowledge. _____

_____ _____

MICHIGAN DEPARTMENT OF EDUCATION
DEPARTMENT SERVICES
Box 420, Lansing, Michigan 48902

INDIRECT COST RATE COMPUTATION FOR LOCAL SCHOOL DISTRICTS
ADJUSTMENTS

EDUCATIONAL AGENCY	LEGAL NAME OF SCHOOL DISTRICT	DISTRICT CODE NUMBER	TELEPHONE NO.
	ADDRESS	CITY	ZIP CODE

INSTRUCTIONS: Return to the state address indicated above by _____.

Account Number	ACCOUNT DESCRIPTION	INDIRECT COSTS		DIRECT COSTS	TOTAL COSTS
		RESTRICTED	UNRESTRICTED		
		–COLUMN A–	–COLUMN B–	–COLUMN C–	–COLUMN D–
2112	Assistant Superintendent(s) Salaries	$	$	$	$
2128	Secretarial and Clerical Salaries				
2140	Office Supplies				
2160	Other				
2783	Fixed Charges–Insurance (Fringe Benefits) (Associated With Indirect Salaries Only)				
3056	Food for Food Service*				
	Total Adjustments	$	$	$	$

I CERTIFY THAT THE ABOVE ADDITIONAL INFORMATION IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE.

_____
SIGNATURE DATE

_____
TYPE: NAME TITLE

* Deducted From Direct Costs For Rate Computation Purposes

MICHIGAN DEPARTMENT OF EDUCATION
Department Services
Lansing, Michigan 48902

INDIRECT COST RATE INSTRUCTIONS

General

An indirect cost rate is used to determine the amount of indirect costs each program should bear. Generally, it is the ratio of indirect costs to direct costs based upon the actual expenditures of a local educational agency recorded in accordance with recommended accounting principles for school districts, i.e., the modified accrual or full accrual basis of accounting. The recovery of indirect costs incurred by a federally funded program must be accomplished by a rate or percentage method in those programs in which indirect costs are eligible expenditures. The use of an indirect cost rate is allowable in those state programs which provide for the recovery of such costs. In addition, indirect costs determined by the rate method may be considered as the local agency's contribution in those Federal and State programs which require a local effort.

The indirect costs of a program are those costs not readily identified with a specific program but, nevertheless, are incurred by the local educational agency for the joint benefit of all programs. In terms of the Finance Accounting Manual for Michigan School Districts, Bulletin 1022, they include, with certain legal exclusions, Administration, Operation, Maintenance and Fixed Charges.

Utilization is made by applying the appropriate rate as determined from the computation schedule to the direct costs of the program, see example. However, during the budgeting process it must be remembered that use of the rate does not increase the amount of the grant.

The financial data from which the rates are computed is taken from the school district's audited Annual Financial Report, DS-4169 (Form B). The time required for the audit and preparation of Form B is such that the rate is computed from the audited expenditures of the second preceding fiscal year to that in which the rate is applicable. For example, the rate computed from the Form B for the year ended June 30, 1971 is the rate which will be in use during the year beginning July 1, 1972 and ending June 30, 1973. Programs which extend beyond June 30 are required to adopt the rate approved for the fiscal year in which that portion of the program is operated. The fiscal year to which the rate applies is indicated in the heading of rate computation Form (RO 415), the rate is applicable during that fiscal period only. In addition, programs operated in any one fiscal year may apply only the approved rate.

The legislation governing certain federally funded programs requires that federal funds "supplement and in no case supplant" local efforts. For these

restricted programs this has been interpreted to mean that only the costs of district wide activities, namely Administration and selected Fixed Charges, are eligible as indirect costs for rate computation purposes. The most common restricted programs, administered by the State agency, in which indirect costs are recoverable are: E.S.E.A. Titles I, III, VI and Vocational Education - Title I,B. Indirect costs of these programs may be recovered only at the rate computed for restricted programs, Column A, of the computation schedule.

In addition, there are programs which prohibit or limit the recovery of indirect costs. If there is a question in this regard it is suggested that reference be made to the program guidelines or that the Department of Education be contacted.

Costs must be treated consistently (i.e., expenditures which are considered indirect for rate computation purpose may not be considered a direct program cost). For example, of two or more positions of similar responsibility, such as administrative assistants, accountants or office managers exist, all positions at that level must be classified as either direct or indirect. For example, if an administrative assistant is reported on Form B as 2100 Administration, (indirect), all other Administrative Assistants must be classified only as an indirect cost in the 2100 account services, The principal physical location of personnel does not necessarily identify the correct expenditure classification (Instruction, Administration, etc.) however, the project expenditure classification must be consistent with that of the Form B.

Your indirect cost rate may be found at the bottom of the attached Indirect Cost Rate Computation for Local School Districts, RO 415.

The rates are computed as follows:

Unrestricted $\quad \dfrac{\text{Col. B}}{\text{Col. C}} = \text{Rate}$

Restricted $\quad \dfrac{\text{Col. A}}{\text{Col. C} + \text{Col. B} - \text{Col. A}} = \text{Rate}$

(In the restricted programs, the unallowed indirect costs are, in effect, considered direct costs.)

In general, records and other supporting documentation must be retained for 5 years after the close of the fiscal year in which the expenditure was made or until notified that the records are no longer needed. The exception to this is that records involved in a Department of Health, Education and Welfare audit claim shall be retained until that claim has been resolved.

Budgeting For An Indirect Cost Rate

Restricted Programs

Approved Grant	$20,000
Indirect Cost Rate	3.06%
Direct Costs	$19,406

The $19,406 is computed by dividing $20,000 by 1.0306 (indirect cost rate plus 100%). $19,406 is the maximum amount that can be budgeted for direct costs if maximum indirect charges are budgeted and the total grant is applied for.

A sample E.S.E.A. Title I budget, utilizing the indirect cost rate, might be as follows:

200 Instruction	$15,256
400 Health	750
500 Transportation	500
800 Fixed Charges	1,650
900 Food Services	750
1100 Community Services	500
Indirect Costs ($19,406 x 3.06%)	594
	$20,000

Unrestricted Programs

Approved Grant	$20,000
Indirect Cost Rate	26.40%
Direct Costs	$15,823

The $15,823 is computed by dividing $20,000 by 1.2640 (total indirect cost rate plus 100%).

A sample unrestricted program budget using separate indirect rates might be as follows:

Instruction	$12,173
Attendance	1,000
Transportation	800
Fixed Charges	1,350
Food Service	500
Indirect Cost	4,177
	$20,000

When a budget for a project (with an applicable restricted or unrestricted rate) includes a line item for capital outlay, the computation of the amount available for direct program costs must be preceded by a reduction of the amount of capital outlay from the grant amount:

Approved Grant	$20,000
Capital Outlay	2,000
Indirect Cost Rate	26.40%
Direct Costs	$14,241

The $14,241 is computed by subtracting the capital outlay from the approved grant and dividing $18,000 by 1.2640 (total indirect cost rate plus 100%).

ADJUSTMENTS

Instructions For Completing DS-4513

Circular A-87 provides that the salaries of Assistant Superintendents for general administration, the cost of operating their offices (secretary and clerical salaries, office supplies and other) and those fringe benefits, such as employee insurances, that are attendant with eligible indirect costs may be considered indirect costs for rate computation purposes. In addition, the costs of food supplies may be excluded from direct costs which reduces the formula denominator thereby improving the rate.

The Annual Financial Report (Form B), upon which the computed rate is based, does not provide data sufficient to identify these allowable adjustments. Therefore, all reported amounts in the following Form B line items have been considered direct or unallowable in the rate computation:

		Indirect Costs		Direct	Total
		Restricted	Unrestricted	Costs	Costs
2112	Salaries of Supt. Ass't.	$	$	$XX	$XX
2128	Salaries - Sec. & Clerical			XX	XX
2140	Total Supplies			XX	XX
2160	Total Other			XX	XX
2783	Insurance (Fringe Benefits)			XX	XX
3056	Food for Food Service			XX	XX

To receive adjustment, the local agency must complete Form DS-4513 and return to the Michigan Department of Education, Department Services, Box 420, Lansing, Michigan 48902. Notification of the adjusted rate will be made by the Department. The originally computed rate must be utilized until such time as notification of the adjusted rate is received.

Explanation: Enter only the eligible expenditures reported in the identified Form B line items as follows:

2112 Salaries of Ass't. Supt.(s)
2128 Salaries Sec. & Clerical
2140 Office Supplies
2160 Other

Identifiable with eligible indirect costs. Excludes costs attributable to the Supt's activities, such as the full time salary or prorated portion of his secretary.

2783 Fixed Charges - Insurance (Fringe Benefits) identifiable with salaries in the respective columns.

COSTS TO BE INCLUDED - ACCOUNT 2112 and 2128

A. Unrestricted indirect costs include those positions related to general administration of the school excluding costs attributable to the position of the superintendent and his activities, such as the full time salary or prorated portion of his secretary's position. Those positions involving accounting budgeting, payroll, personnel, purchasing, employee and public relations, etc. Do not report administrative positions (assistant superintendents and directors) as indirect costs that involve the direction and supervision of such functions as instruction, guidance, attendance, transportation, community services and student services. Secretarial and clerical employees supporting the latter positions must not be included in the indirect classification of cost. The costs of this latter group - assistant superintendents, directors and support employees - must be classified as direct charges. As such, their charges would have to be identified to cost objectives based on documented time and effort studies.

B. Two additional administrative positions must be excluded from the computation of the restricted rate - administrators and support staff involved in the maintenance and operation function.

COSTS TO BE INCLUDED - ACCOUNT 2140 and 2160

Include only those costs identifiable with the eligible postions noted above with the unrestricted and restricted indirect costs.

COSTS TO BE INCLUDED - ACCOUNT 2783

Include only those Insurance (fringe benefits) identifiable with eligible positions noted above with the unrestricted and restricted positions in the respective columns.

COSTS TO BE INCLUDED - ACCOUNT 3056

Food for Food Service (cost of food supplies)

If you have any questions, please contact the Program Control Unit, Department of Education, 1020 South Washington Avenue, Lansing, Michigan, Phone (517) 373-3350.

Regional Presentation

Over the past five or six years school district officials have complained that they have increased costs because of federal programs that they could not recover because they could not document the additional costs. These meetings are to present a method by which these costs can be documented without having to make time and effort studies for direct charges.

The presentation will be divided into four parts:

General information

The adjustment for rate types

Rate computation

Budgeting with the rate

All districts have received in the latter part of December an unadjusted rate sheet, an adjustment form and a set of general instructions for completion of the adjustment form.

You may note some inconsistencies in the method of identifying those costs which are direct and indirect and the method in computing the rate but it is not possible to explain them.

The rate will be mandatory for recovery of general administrative costs after July 1, 1973.

Rates can be used this year if a school district chooses. The advantage to the use of the rate is that once a rate has been approved, the necessity for time/effort studies to substantiate general administrative costs will not be necessary.

An important point to remember though is that no extra funds are available to reimburse districts when the rate is used. The reimbursement comes out of the regular grant award.

REGIONAL MEETINGS ON INDIRECT COSTS FOR FEDERAL & STATE PROGRAMS

1. Mason-9:30 a.m.
   January 3, Ingham
   Intermediate Office
   Conference Area, 2630 W.
   Howell Road
2. Bay City-9:00 a.m. January 8
   Bay-Arenac Intermediate Office
   4228 Two Mile Road
3. Flint-2:00 p.m. January 8
   Genesee Intermediate Office
   2413 Maple Avenue
4. Muskegon-9:00 a.m. January 9
   Muskegon Intermediate Office
   630 Harvey Street
5. Grand Rapids-2:00 p.m. January 9
   Kent Intermediate Office
   2650 E. Beltline, S.E.
6. Portage-9:00 a.m. January 10
   Kalamazoo Intermediate Office
   1819 E. Milham Road
7. Jackson-2:00 p.m. January 10
   Jackson Intermediate Office
   2301 E. Michigan Ave.
8. Traverse City-9:00 a.m. January 11
   Traverse Bay Intermediate Office
   2325 S. Garfield Road
9. Roscommon-2:00 p.m. January 11
   Kirtland Community College Auditorium, F-97 N. of St. Helen
10. Mt. Clemens-9:00 a.m. January 12
    Macomb Intermediate Office
    44001 Garfield Road
11. Pontiac-2:00 p.m. January 12
    Oakland School's Kiva
    2100 Pontiac Lake Road
12. Belleville-9:00 a.m. January 16
    Van Buren Public High School Auditorium
    501 W. Columbia
13. Ann Arbor-2:00 p.m. January 16
    Washtenaw Intermediate Office
    1819 S. Wager Road
14. Marquette-1:00 p.m. January 16
    Northern Michigan University
    Don Bottom University Center-Erie Room

Any Questions Regarding These Meetings,
Contact Program Control Unit (517) 373-3350

GENERAL

An outcome of the Elementary and Secondary Education Amendments of 1969, Public Law 91-230, Section 4146b, was the establishment of a procedure to recover indirect costs. In that section it provides:

> "The Commissioner shall permit local educational agencies to use organized and systematic approaches in determining cost allocation, measurement and reporting . . . that such approaches are consistent with criteria prescribed by the Comptroller General of the United States . . ."

The guideline for this procedure is Bureau of the Budget Circular A-87, which is a part of A Guide for Local Government Agencies - Establishing Cost Proposals for Grants and Contracts with the Federal Government OASC-8.

A-87 establishes principles designed to provide that federally assisted programs bear their fair share of costs recognized under these principles except where restricted or prohibited by law. The establishment in an indirect cost rate does not dictate the extent of federal participation in the financing of a particular grant. An indirect cost rate is a device for determining in a reasonable manner what proportion of general expenses each program should bear.

However, there is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function but indirect with respect to the grant or other ultimate cost objective. It is essential, therefore, that each item of cost be treated consistently either as a direct or an indirect cost. Specific guides for determining direct and indirect costs allocable under grant programs are provided later.

The basic factors affecting the allowability of indirect costs are:

1) The costs must be necessary and reasonable for proper and efficient administration of the grant program and not be a general expense required to carry out the overall responsibilities of the school district. This is interpreted to exclude the costs of boards of education, district superintendents, and building principals, etc.

2) The costs must conform to any limitation or exclusion set forth in the principles of A-87, federal and state laws and regulations.

3) The cost must not be allocable to or included as a cost of any other federally financed program.

On the subject of allocation of costs, the following should be considered:

1) A cost is allocable to a particular cost objective to the extent of benefits received by such cost objective. A cost objective is defined as a pool, center, or area established for the accumulation of cost. Such areas include organizational units and functions, as well as ultimate cost objectives including specific grants, projects, contracts, and other activities.

2) Any costs allocable to a particular grant or cost objective under the principles of A-87 may not be shifted to other federal grant programs to overcome fund deficiencies, avoid restrictions imposed by law or grant agreements, or for other reasons.

Direct costs are those that can be readily identified with a particular cost objective. These costs may be charged directly to grants and contracts.

Indirect costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited without effort disproportionate to the results achieved. The term "indirect costs" applies to costs incurred by the school district for goods, services, and facilities and not readily assignable to a cost objective.

Federal grants may be subject to laws that limit the amount of indirect costs that may be allowed. Agencies that sponsor grants of this type will establish procedures which will assure that the amount actually allowed for indirect costs under each such grant does not exceed the maximum allowable under the statutory limitation or the amount otherwise allowable, whichever is the smaller.

The Office of Education has developed a policy on indirect costs established by the Office of Management and Budget (OMB) in Circular A-87 and the relationship of the Circular to grant programs administered by state educational agencies (SEA). The state department has been delegated the authority to negotiate and approve indirect cost rates for local educational agencies (LEA). Under the terms of the agreement with DHEW, and indirect cost rate is the ratio of expenditures for general administration to the total of all other expenditures expressed as a percentage. Examples of general administrative expenditures are payroll, personnel, purchasing, accounting, maintenance and operations, budgeting, auditing, etc. It does not include expenditures for the Board of Education or other school district governing body, for the compensation of the chief administrative officer of the school district or of individual schools, or for the operation of their immediate offices. Such expenditures, although unallowable, must be included in the direct cost base for computation purposes. Those positions relating directly to instruction or special services such as attendance,

health, transportation, operation of plant, maintenance of plant, community services and student services, although identified to central administration, must be charged directly to the specific cost objective benefited. The treatment and application of classes of expenditures in terms of direct and indirect cost should be consistent throughout the analysis of costs.

ADJUSTMENT FORM

The basic development of the rate is accomplished by segregating costs as reported on the Form B, Annual Financial Report, into two categories - direct and indirect. The following expenditure account series are classified as direct costs:

	Account Series
Instruction	1100 - 1900
Attendance	2200
Health Services	2300
Transportation Services	2400
Community Services	2900
Student Services	3000

The balance of the expenditure account series is classified in various ways within the individual account series. In the administration series of accounts (2100), the board of education and superintendent position with their related personnel and other costs are unallowable as indirect costs. For computation purpose they are included in the direct category.

The disposition of assisant superintendent(s) and related staff costs is based on the activity of the assistant(s). If it is classified as general administrative, it falls in the indirect category. If the assistant superintendent's activity is limited in scope to one of the direct cost activities, his costs will fall in the direct category; i.e., assistant superintendent for elementary instruction, assistant superintendent for instruction, assistant superintendent for special education, director of food services, director of transportation.

If the assistant superintendent's activity is related to business administration, personnel, maintenance and operation of plant, etc., then the costs are considered indirect. The related support personnel and other costs would also be categorized as indirect.

Audit costs, if billed by the audit firm to the grant or contract, are allowable as a direct charge. This ruling was made subsequent to the preparation of Form 4513. If you choose to recover these costs on a direct charge basis, an adjustment for total audit costs should be noted on the back of the form so a correction of the indirect costs can be made.

In the account series 2700, Fixed Charges, the interest on loans is excluded from both categories of costs (2785). Rental of land and building should be categorized direct or indirect according to the function served (2784). Other fixed charges (2786) are categorized as direct costs. The fringe benefit accounts (2781, 2782, 2783) are associated with the salaries generating them. Therefore, they are both direct and indirect costs. Rental of data processing equipment (2787) is an indirect cost.

Replacement of equipment costs in the maintenance account series must be direct charged. Therefore, in the computation of the rate this type of expenditure is assigned to the direct cost category.

The capital outlay series of accounts are dropped from the computation completely.

Under the food service class of expenditure, the amount expended for food should be removed from the computation.

RATE TYPES

There are two types of indirect cost classifications to be considered - unrestricted indirect and restricted indirect. The restricted indirect rate is the result of legislation and regulations within each of the grant programs. Elementary and Secondary Education Act Title I requires that:

> "Federal funds made available under this title will be so used as to (i) supplement and . . . increase the level of funds . . . (ii) in no case, as to supplant such funds from non-federal sources . . ."

The mere fact that certain categories of costs are listed as allowable in OMB Circular A-87 does not mean that Title I should bear a portion of all such costs which are incurred by a school district unless (1) some relationship can be shown between those costs and the Title I program, and (2) Title I funds do not supplant non-federal funds; i.e., do not pay for costs that would otherwise be borne by state and local funds.

Based on the above points, the Office of Education has removed maintenance and operation costs from the indirect rate in the supplement - supplant grants. This particular situation brings out the point that OMB Circular A-87 is restricted by grant legislation and regulations.

The unrestricted rate is used with grants and contracts that do not have the supplement/supplant language in their controlling regulation and guidelines.

In all cases no rate used is permitted unless a provision is contained in the grant or contract for its allowance.

BUDGETING

To use the rate in budgeting for a Title I project you determine the amount of the grant available to you. The rate is determined from your final rate sheet. Add the direct cost of the program as 100% and the rate as final computed. Divide the amount of the grant by this sum and you will have determined the amount of funds available for direct program costs.

Facts:

Grant Award	$105,000
Direct Cost (No Capital Outlay)	100%
Indirect Rate	5%

Computation:

Sum: 100% + 5%	=	1.05
105,000 - 1.05	=	$100,000
Check: Program Direct Cost		100,000
5% Indirect Rate		+ 5,000
Grant Award		$105,000

There is no requirement that a district use its full rate. The full rate computation sets the maximum limit of indirect costs available.

Administrative costs are to be recovered by the indirect rate method on a mandatory basis as of July 1, 1973.

There has been confusion in prior periods as to what constitutes administrative costs. Project directors, although considered administrators of the program, are actually to be classified under the line item of expenditures "Instruction." Administration as a line item on a budget form and indirect costs are interchangeable terms in this instance.

One caution: Do not apply the rate to budgeted capital outlay. The amount available for programs, if the maximum rate allowable is used, is determined by subtracting capital outlay from the grant award and then going through the previously noted computation.

RATE COMPUTATION

The rate computation after all classes of expenditures have been categorized into direct, indirect, and/or eliminated becomes a ratio expressed as a percentage:

Unrestricted Indirect Rate

$$\frac{\text{Column B}}{\text{Column C}} = \% \text{ Rate}$$

Restricted Indirect Rate

$$\frac{\text{Column A}}{\text{Column C + Column B - Column A}} = \% \text{ Rate}$$

The local school district will initially receive a preliminary unadjusted rate which is based on the district's Form B and an indirect cost rate adjustment schedule Form DS-4513. The preliminary rate sheet will reflect all variable items as direct costs. The Form B does not provide data sufficient to identify all allowable indirect costs. A school district can accept the computed rate by sending back the adjustment form with no corrections. This will signify acceptance. If a district chooses, it may make the adjustments which have been discussed and which are noted in the instructions to accompany the forms. The adjustments are returned to the Department of Education and the appropriate corrections are made and final rates are computed. These rates will be returned to the school district.

The total cost of a grant program is comprised of the allowable direct cost incident to its performance plus its allocable portion of allowable indirect costs less applicable credits.

When filing a final expenditure report, the school district should apply the approved rate to the actual expenditures (excluding capital outlay)

to determine amount of recoverable indirect cost. Do not confuse budgeted indirect costs with actual recoverable indirect costs. Remember the amounts of costs recoverable must fall within the grant amount -- capital outlay + other direct costs + indirect costs should not exceed the grant.

Any errors in distribution of costs in the Form B should be corrected when filing the adjustment schedule Form DS-4513. If adjustments involve other expenditures than provided on the form, please attach a separate sheet with the amounts and an explanation. Consistent treatment of kinds of expenditures is a must. You cannot charge a bookkeeper in one case as a direct cost on a project and an indirect cost on Form B in another case.

The costs reflected in the rate computation are subject to audit as a responsibility of the Department. It is anticipated that DHEW Audit Agency will select local education agencies for audit review to determine that the cost plans have been prepared and used in accordance with the delegation of authority and that costs are treated consistently.

Exhibit I

A GUIDE FOR

LOCAL GOVERNMENT

AGENCIES

Establishing Cost Allocation Plans and Indirect Cost Proposals for Grants and Contracts with the Federal Government

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U.S. DEPARTMENT OF
HEALTH, EDUCATION, AND WELFARE

OASC-8

Exhibit II

FORM B

DIRECT COSTS

1xxx INSTRUCTION:

- 1100 Elementary
- 1200 Secondary
- 1300 Special Education
- 1400 Summer School
- 1500 Adult Education
- 1600 Community College
- 1900 Unclassified

22xx ATTENDANCE

23xx HEALTH SERVICES

24xx TRANSPORTATION

29xx COMMUNITY SERVICES

30xx FOOD SERVICES

31xx BOOK STORE

32xx STUDENT BODY ACT

Exhibit III

FORM B

INDIRECT COSTS

21xx ADMINISTRATION: Consists of those activities which have as their purpose the general regulation, direction, and control of the affairs of the school district that are systemwide and not confined to one school, subject, or narrow phase of school activity.

POSITIONS ALLOWABLE as INDIRECT

- General Administration
- Personnel
- Accounting and Finance
- Budgeting
- Purchasing
- Administration of Bldg. and Grnds. (Unrestricted)
- Centralized Research (Benefit to Contracts Grants)
- Data Processing

POSITIONS UNALLOWABLE as INDIRECT

- Subject or Function Coordinator or Director (Instruct.)
- Cafeteria
- Community School Coordinator
- Instructional Materials
- Libraries
- Transportation
- State/Federal Special Projects Coordinator
- Information and Publication Services
- Public or Community Relations
- Legislative

Exhibit IV

FORM B

INDIRECT COSTS

The following two cost categories are excluded when computing the restricted indirect rate because of the "supplement not supplant" language.

25xx OPERATION OF PLANT Consists of the housekeeping activities concerned with keeping the physical plant open and ready for use. These costs are allowed as an indirect costs when computing an unrestricted rate.

26xx MAINTENANCE OF PLANT Consists of those activities that are concerned with keeping the grounds, buildings, and equipment at their original condition of completeness or efficiency, either through repairs or by replacements of property (anything less than replacement of a total building). These costs are allowed as indirect costs when computing an unrestricted rate. The cost of replacement of equipment in this category must be direct charged to a grant or contract.

27xx FIXED CHARGES: Are expenditures of a generally recurrent nature which are not readily allocable to other expenditure accounts.

INDIRECT COSTS: Fringe benefit insurances associated with positions included in the indirect cost category should be recorded in Column A and/or B of the adjustment sheet where appropriate.

- Rental of Data Processing Equipment (2787)

DIRECT COSTS:

- Other Insurances
- Rental of Land and Buildings (2784)
- Other Fixed Charges (2786)

EXCLUSION:

- Interest on Short-Term Loans (2785)

Exhibit VI

DS-4513
10/72

Michigan Department of Education
Department Services
PROGRAM CONTROL UNIT
Box 420 Lansing, Michigan 48902

FISCAL YEAR 1972–73 INDIRECT COST RATE ADJUSTMENTS

EDUCATIONAL AGENCY	Legal Name of School District	District Code No.	Telephone–Area Code/Local No.
	Address	City	Zip Code

MAILING INSTRUCTIONS: Return **ONE** copy by **JANUARY** 30, 1973 to the STATE address indicated above.

ACCT. NO.	ACCOUNT DESCRIPTION	INDIRECT COSTS		DIRECT COSTS
		Restricted A	Unrestricted B	C
2112	ASSISTANT SUPERINTENDENT(S) a. Salaries (See below*)	$	$	
2128	b. Secretarial and Clerical Salaries			
2140	c. Office Supplies			
2160	d. Other			
2783	FIXED CHARGES–INSURANCE (Fringe Benefits) (Associated with Indirect Salaries ONLY)			
3056	FOOD FOR FOOD SERVICE (Deducted from direct costs for rate computation purposes)			$
	TOTAL ADJUSTMENTS	$	$	$

*List positions included in the adjustment to Account 2112. Complete list on back of this form if additional space is necessary.

ASSISTANT SUPERINTENDENT(S)	
Title of Position	F.T.E. Positions

CERTIFICATION: **I certify that the above adjustments are true and correct to the best of my knowledge.**

Form B errors should be noted on the back of this form. Audit cost correction figure should be noted on back of form if costs are directly billed for grants and contracts. Move total audit cost from indirect to direct.

Exhibit VII

RATE COMPUTATION

ADJUSTMENTS FROM FORM #4513

COLUMN A =
COLUMN B =
COLUMN C =

TOTALS FROM RATE COMPUTATION SHEET #R0415

	Column A	Column B	Column C	Column D
	Indirect Costs		Direct Costs	Total Costs
	Rest.	Unrest.		
**TOTAL				
PRELIM. RATE	%	%		
ADJUSTMENTS				
ADJUST. TOTAL				
ADJUST. RATE	%	%		

$$\frac{\text{Column A}}{\text{Col. C} + (\text{Col. B} - \text{A})} \qquad \frac{\text{Column B}}{\text{Column C}}$$

Exhibit VIII

RATE COMPUTATION

ADJUSTMENTS FROM FORM #4513

COLUMN A = $500 – Insurance applicable to restricted pos.
COLUMN B = $800 – Insurance applicable to unrestricted pos. (Includes Col. A – $500)
COLUMN C = $200 – Food costs

TOTALS FROM RATE COMPUTATION SHEET #R0415

	Column A Indirect Costs Rest.	Column B Indirect Costs Unrest.	Column C Direct Costs	Column D Total Costs
**TOTAL	$1,000	$2,000	$20,000	$20,500
PRELIM. RATE	5 %	10 %		
ADJUSTMENTS	+500	+800	–1,000	
ADJUST. TOTAL	$1,500	$2,800	$19,000	$20,500
ADJUST. RATE	7.39 %	14.74 %		

Column A / Col. C + (Col. B – A)

Column B / Column C

REPORT R0415

DEPARTMENT SERVICES–SCHOOL FINANCE
INDIRECT COST RATE COMPUTATION FOR LOCAL SCHOOL DISTRICTS
SCHOOL YEAR 1970-1971

DATE 09-18-72

School District Name . . .

Code

Account Number	Account Description	–Column A– Indirect Costs Restricted	–Column B– Indirect Costs Unrestricted	–Column C– Direct Costs	–Column D– Total Costs
1100	Total Elementary Instructional Expenses			2,183,670	2,183,670
1200	Total Secondary Instructional Expenses			2,111,202	2,111,202
1300	Total Special Educ. Instructional Expenses			98,392	98,392
1400	Total Summer School Instructional Expenses			4,106	4,106
1500	Total Adult Education Instructional Expenses			6,020	6,020
1600	Total Community College Expenses				
1900	Total Unclassified Instructional Expenses			1,553	1,553
2111	Admin.–Board of Education Salaries				
2112	Admin.–Salaries of Superintendent & Asst.			63,500	63,500
2113	Admin.–Salaries of Business Personnel	57,900	57,900		57,900
2114	Admin.–Salaries of Personnel Office	15,700	15,700		15,700
2115	Salaries of Centralized Research				
2128	Admin.–Salaries Secretarial and Clerical			73,815	73,815
2129	Admin.–Other Administrative Salaries	10,880	10,880		10,880
2130	Admin.–Total Contracted Services for Admin.	33,770	33,770		33,770
2140	Total Administration Supplies			13,607	13,607
2160	Total Other Administrative Expenses			18,909	18,909
2200	Total Expenses for Attendance			15,529	15,529
2300	Total Expenses for Health Services			21,516	21,516
2400	Total Pupil Transportation Expenses			448,091	448,091
2500	Total Operation of Plant Expenses		684,749		684,749
2600	Total Maintenance of Plant Expenses		133,490	6,136	139,626
2781	Contributions to Retirement Funds			11,312	11,312
2782	Contributions to Social Security Fund				
2783	Insurance Expenses			164,850	164,850
2784	Rental of Land and Buildings			5,887	5,887
2785	Interest on Short Term Loans				7,740
2786	Other Fixed Charges				
2787	Rental of Data Processing Equipment				
2800	Total General Fund Capital Outlay				90,779
2900	Total Community Services			4,690	4,690
3072	Expenditures for Food Services			378,236	378,236
3172	Expenditures for Book Stores				
3272	Expenditures for Student Body Activities				185,590
	Total	118,250	936,489	5,631,021	6,851,619
	Indirect Cost Rate Equals	1.83%	16.63%		

Exhibit IX

REPORT R0415

DEPARTMENT SERVICES–SCHOOL FINANCE
INDIRECT COST RATE COMPUTATION FOR LOCAL SCHOOL DISTRICTS
SCHOOL YEAR 1970-1971

DATE 12-29-72

School District Name . . .

Account Number	Account Description	–Column A– Indirect Costs Restricted	–Column B– Indirect Costs Unrestricted	–Column C– Direct Costs	–Column D– Total Costs
1100	Total Elementary Instructional Expenses			2,183,670	2,183,670
1200	Total Secondary Instructional Expenses			2,111,202	2,111,202
1300	Total Special Educ. Instructional Expenses			98,392	98,392
1400	Total Summer School Instructional Expenses			4,106	4,106
1500	Total Adult Education Instructional Expenses			6,020	6,020
1600	Total Community College Expenses				
1900	Total Unclassified Instructional Expenses			1,553	1,553
2111	Admin.–Board of Education Salaries				
2112	Admin.–Salaries of Superintendent & Asst.	18,500	18,500	45,000	63,500
2113	Admin.–Salaries of Business Personnel	57,900	57,900		57,900
2114	Admin.–Salaries of Personnel Office	15,700	15,700		15,700
2115	Salaries of Centralized Research				
2128	Admin.–Salaries Secretarial and Clerical	28,775	43,875	29,940	73,815
2129	Admin.–Other Administrative Salaries	10,880	10,880		10,880
2130	Admin.–Total Contracted Services for Admin.	33,770	33,770		33,770
2140	Total Administration Supplies	8,770	10,995	2,612	13,607
2160	Total Other Administrative Expenses	10,775	15,190	3,719	18,909
2200	Total Expenses for Attendance			15,529	15,529
2300	Total Expenses for Health Services			21,516	21,516
2400	Total Pupil Transportation Expenses			448,091	448,091
2500	Total Operation of Plant Expenses		684,749		684,749
2600	Total Maintenance of Plant Expenses		133,490	6,136	139,626
2781	Contributions to Retirement Funds			11,312	11,312
2782	Contributions to Social Security Fund				
2783	Insurance Expenses	4,500	30,550	134,300	164,850
2784	Rental of Land and Buildings			5,887	5,887
2785	Interest on Short Term Loans				7,740
2786	Other Fixed Charges				
2787	Rental of Data Processing Equipment				
2800	Total General Fund Capital Outlay				90,779
2900	Total Community Services			4,690	4,690
3072	Expenditures for Food Services			251,496	378,236
3172	Expenditures for Book Stores				
3272	Expenditures for Student Body Activities				185,590
	Total	189,570	1,055,599	5,385,171	6,851,619
	Indirect Cost Rate Equals	3.03%	19.60%		

Exhibit X

EXHIBIT XI

DS-4513
10/72

Michigan Department of Education
Department Services
PROGRAM CONTROL UNIT
Box 420 Lansing, Michigan 48902

FISCAL YEAR 1972–73 INDIRECT COST RATE ADJUSTMENTS

EDUCATIONAL AGENCY	Legal Name of School District	District Code No.	Telephone – Area Code/Local No.
	Address	City	Zip Code

MAILING INSTRUCTIONS: Return ONE copy by JANUARY 30, 1973 to the STATE address indicated above.

ACCT. NO.	ACCOUNT DESCRIPTION	INDIRECT COSTS Restricted A	INDIRECT COSTS Unrestricted B	DIRECT COSTS C
2112	ASSISTANT SUPERINTENDENT(S) a. Salaries (See below*)	$ 18,509	$ 18,500	
2128	b. Secretarial and Clerical Salaries	28,775	43,875	
2140	c. Office Supplies	8,770	10,995	
2160	d. Other	10,775	15,190	
2783	FIXED CHARGES -INSURANCE (Fringe Benefits) (Associated with Indirect Salaries ONLY)	4,500	30,550	
3056	FOOD FOR FOOD SERVICE (Deducted from direct costs for rate computation purposes)			$126,740
	TOTAL ADJUSTMENTS	$ 71,320	$ 119,110	$126,740

*List positions included in the adjustment to Account 2112. Complete list on back of this form if additional space is necessary.

ASSISTANT SUPERINTENDENT(S)	
Title of Position	F.T.E. Positions
Assistant Superintendent -	
General Administration	1.0

CERTIFICATION: I certify that the above adjustments are true and correct to the best of my knowledge.

Date _____ Superintendent or Authorized Official _____ (Signature)

Type Name _____

Title _____

Contact Person _____ Telephone _____ (Area Code/Local No.)

50-.49-BK-3348

Indirect Cost SEA-LEA from the Federal Viewpoint

Indirect Costs - SEA-LEA From The

Federal Viewpoint

Mr. William Gately, Deputy Chief
State and Local Branch
Division of Cost Policy and Negotiations
Office of Grant Administration Policy

We have various branches of the Division of Grant Administration Policy, one of which is the state and local branch. I am Deputy Chief of the state and local branch. Incidentally, the handout which you have here says Appendix 1 A-87. This is not just A-87, it was copied from our OAC 6 which incorporates A-87 and includes some exhibits in Appendix 2 and so forth. All of this material is included in the Division of Grant Administration Policy booklet OAC 6. A-87 is only Appendix 1.

Let me make a comment on the original hopes as we go along and see whether they worked out or not. One of the first attempts was to establish some uniform standards of allowability of reimbursement for overhead costs. The best way to explore would be to see what was happening under the present method because I think some parts have had very little change and the Department is still using the old method in which you attempt to specifically identify indirect costs for a particular project. It is immediately apparent that there are a lot of disadvantages of doing things this way. There is a lack of uniformity, you don't have any guidelines, you run into a federal grants managements man who says I'll allow the accounting, but I wouldn't allow personnel. The next man says I will allow personnel but I won't allow accounting. There is no uniformity. It is an arbitrary negotiation when you are Chief of a program. You have to do it. If you have 25 programs you have to negotiate indirect costs 25 times instead of once. It also

presupposes a degree of sophistication in the accounting on the part of program people who are the grants management specialists in the federal government and the contracting officers which many times just doesn't exist. A program manager in a state department may be able to get more or less indirect costs depending upon his knowledge and depending on the knowledge of the person with whom he is dealing on the federal side of the fence. Due to the lack of coordination among state personnel, some of them get cost and others wouldn't get cost. We hoped they wouldn't recover more than 100% but that was a possibility too. Invariably, under this method, from our experience, you recover less in the way of indirect cost by this direct identification then you would have if you used an indirect cost rate. That immediately becomes apparent because those of you who have used the rate have found out that now the total part of the program is more than what it was before when you tried to identify it. It immediately became apparent that we weren't charging enough. We forgot about this item and that item and some other items or we knew that they should have been allocated. We couldn't try to identify how much should be allocated to each particular program and therefore, we were not able to do so and we did not attempt to do so.

Now by using an indirect cost rate or rates we have come up with a number of pools or one group of pools of indirect costs and by using a rate we know how much is applicable for each program theoretically. It did have some advantages.. The advantages that we did have were probably familiarities like a comfortable old shoe, everybody knew what they were doing. You hate to change. You don't know what this stuff about the indirect cost rate is. What are they talking about? I don't know what they are talking about. Why don't we continue the way we were doing it before. Also the program people on the federal side, they liked the old method better

because they had better control over it. They could see exactly what was going in there. Now they get an indirect cost rate and say well my God what is going into that rate. Look at that - 25%. What in the world is that? And we tell them, well it is really none of your business. We negotiated the rate. We don't exactly say that because we might get fired if we got a little too fresh with them. Eventually that is what we attempt to do. We establish the rate and once that rate has been established, to the extent that there are no statutory limitations and to the extent that there is funding available, that rate has to be accepted by all program people, by all grants management officers, and by all contracting officers.

Now we don't have much in the way of statutory limitations. We have the 1% in Title I and we have a few others. As Ron Reguly has pointed out the big stumbling block is lack of funding and there is no use in my standing up here and telling you that just because you got an indirect cost rate you are going to get in every case more money than you got before. It just isn't true. In most cases, the vast majority of cases, you will get the money. The reason you will not get any more money is that there just isn't any money there. If they had $100,000.00 to give you last year and you used up that $100,000.00, we can't give you $110,000.00 this year because we just don't have it. If the program personnel or a grants management specialist tells you we realize your rate is 20% and we gave you $100,000.00 last year, even though now under the new method of costing, you are taking out some types of cost that is a recognized line item because of the overhead rate. By applying the overhead rate to these new direct costs, you come up with a larger amount. It is now $110,000.00, that is all very good. We know it is true. We can't give it to you because all we have is $100,000.00.

I can't agree with Ron that in most cases they haven't been able to recover anything. I think this is very hard for me to believe that even in Ron's state that nothing was recovered or recoverable. If you sit back and let the program people tell you that we've got the money and we don't have any statutory limitations but we think that rate is too high. Or we've got an administrative manual that says all we can give you is 8%. If you let them tell you that, and you don't complain about it to us, to our office if it is an HEW program, to OMB if it is a non-HEW program and for that period of time that's how long you are going to continue losing out on indirect costs. We don't know about it unless you tell us about it. We do not give out the money. All we do is establish the rates. If you don't get the money you think you are entitled to, because of some arbitrary decision on the part of grants management persons or contracting officer, the only way you get that money is to let us know about it. If you don't let us know, you will never get it. So if you continue to sit back and do nothing, allow them to tell you this when there is not justification for it, then you have nobody but yourself to blame for that.

Let me summarize this way, even if you never got another penny by using the indirect cost rate, I think it is to your advantage to do so because it is a good management tool. It is easier to do it. Why try to identify indirect costs, if you have 20 programs, why try to do it 20 times. It is bad enough to identify the direct costs 20 times, why do it for the indirect. If you can find an easy way out by using a rate, you do it one time, one individual where he happens to be and that is the end of it. Then you just use that rate. So I think it is a whole lot easier if there wasn't another time involved in it. It is a little tough the first time, but it is not as tough as you think it is. You don't have to use multiple rates. As Ron pointed out, we were going on that band wagon when Joe was there. He loved

multiple rates but George Wolff is now the Chief and he doesn't love them. We will accept single rates. Secondly, you may be able to use it in some cases if you are short of matching, you could use the indirect costs for matching. Third, if you have new programs, I would certainly apply for it. I think it would be to your advantage to do so. Fourth, from a negative standpoint, if you don't do it, you may sometime in the future find yourself getting nothing for indirect costs, so as we pointed out there are problems involved in that. Hopefully, we can resolve them.

Indirect Cost Problems as Viewed by Centralized State Administrative Services

PROBLEMS OF INDIRECT COSTS AS VIEWED BY CENTRALIZED STATE ADMINISTRATIVE SERVICES

By Don Holl, Coordinator of Federal-State Relations
Wisconsin Department of Administration
Madison, Wisconsin

Many of you are probably aware of what the Consolidated Statewide Indirect Cost Allocation Plan is and how it is prepared but permit me to quickly recap so we all have a common base of knowledge and definition.

State Agencies commonly render various supportive types of services to other agencies, such as facilities, motor pools, personnel management purchasing etc. In Wisconsin most of these supportive services are supplied by our Department of Administration. Some Supportive Services are billed directly to state agencies. The costs of central support services are generally treated as indirect costs and can be (as recognized by A-87) added to the indirect costs generated within a specific State agency - grantee's own shop.

In order to document or support the claims of central support costs, the State Budget agency must compile; and submit for federal approval, a state-wide cost allocation plan which delineates the nature and amount of the services provided and relevance to federal projects, the items of expense included in the cost, the methods used to distribute the costs, statements of state operating procedures for support and descriptions of State organization.

There are four basic steps in the preparation of a plan:

1. Identification of the costs of each type of service to be claimed (as defined in attachment A, Section G.1 of the cost principles.)

2. Determination of the method for allocating each type of service to users.

3. Mathematical allocation of these costs to the user agencies.

4. Summarization of the amounts allocated into a single, formal, comprehensive state-wide plan.

The complete package is then negotiated with HEW. Any provisional costs involved are approved and the actual costs approved are also subject to a subsequent audit by an HEW team. The C.A.P. is an annual plan and subject to annual review and renewal-update.

Costs to all central support services furnished by the State Averages $11 million. The non-billed costs incurred by central agencies which are necessary for the efficient conduct of federal grant programs are distributed to grantee state agencies in an amount indicative of the amount of services provided. The billed services amount to more than half of all services - about 6 million out of the 11 million. The remaining 5 million is the actual meat of the Cost allocation plan.

In the organization of Wisconsin State Government each of the central service activities makes available its services to each department, including the department in which it is organized, as if it were an autonomous service agency. For example, the Department of Administration is billed for printing production in the same manner as any other state agency. The Department of Administration also submits to the same procedures to hire for a position in the classified service as other state agencies. To avoid making allocations from one activity to another activity and an allocation back again in the Department of Administration, a pro rata portion based on the number of classified positions in allowable activities (660) to the total number of positions in the department (842) is deducted from the allocation base. This type of procedure is followed for other activities in the Department of Administration: central stores, personnel management, state purchasing, printing procurement, central mail services, and the state records center. These represent the activities for which no charge is made for processing.

After the completion of the total package, including negotiation, audit and the insertion of CAP data elements into each grantee agency - we could anticipate about $5 to 600,000 potential return for the central services. The grantee's own share of (their indirect costs) or percentage of grants $ earned is retained by the grantee agency. The pro rata share attributable to the central services (vis CAP) is returned to the state general fund and represents a savings. Thus while A-87 does not create a profit, it does have the potential for creating some savings in state costs.

That about covers the preparation and mechanics of the statewide Cost Allocation Plan.

Here's where the problems begin. The overall concept of A-87 is excellent but unfortunately principles expressed lead many of us to expectations considerably higher than reality. Let's fact it, the entire purpose of going through the difficult exercise of indirect cost plan preparations, is to acquire money - savings - returns on an investment.

The Problem of Debt service as related to operations costs.

A-87 does not recognize debt service costs:

Our concern is best demonstrated in the matter of "renting" office space to federally funded programs (reimbursed in total or in part) which are housed in state owned office facilities. Let me explain how the process works in Wisconsin.

First of all, over the years Wisconsin has consistently analyzed and proved that state ownership of office facilities is the most economical way for the state to provide for its office space needs. Basically, this is due to the fact that the state, as owner, is exempted from property taxes, it can borrow money at lower interest rates, and it is not involved in a profit return, as is the private sector. Whether or not these are fair or desirable factors is a matter of philosophy. . .but when considered strictly from the cost standpoint as a customer of large amounts of space,

they are real and provable. In addition, state constructed and owned space can be designed specifically for the purpose for which it is to be used and will meet the high standards of material and workmanship which we impose on ourselves as the design and construction agency. Consequently, our goal continues to be that of housing all state agency administered programs (including those funded by the federal government) in state owned and constructed facilities.

For the past several years, due to the abnormal need we have experienced in the 60's and 70's for higher education facilities, hospitals, correctional institutions, and ever-expanding needs for office facilities, we have not been able to meet these demands from current revenues, but rather have borrowed for construction and have capitalized the facilities over twenty to thirty year periods. Up until 1967, because of a constitutional restriction on "general obligation" bonding, we were forced to use the building corporation borrowing device; however, in 1967 the voters of Wisconsin amended the constitution to provide for general obligation bonding which is the system of funding we currently use.

Wisconsin statutes require the State Building Commission to establish a "rental rate" for all state owned office facilities so as to recover all costs of operating the building, including principal and interest payments on the debt borrowed to construct the building, maintenance, heating, utilities, cleaning, snow removal, security, etc. Each state agency is billed at that rate for the number of square feet of occupancy. When the building is fully capitalized, the principal and interest portion of the rental rate for that particular building is eliminated.

Consequently, for the federal government to disallow the interest part of the rental cost for federally funded programs is to arbitrarily reject one of the actual and real costs of carrying out the program. It is no more logical to refuse to pay the interest cost than it is to disallow the cleaning cost or maintenance or insurance. . .yet these are all recognized and allowable costs.

What is particularly mystifying is that the A-87 guidelines permit allowance of the full rental cost, if the activity is housed in a privately owned facility when the rate there (if the owner is going to stay in business) includes interest (at a considerably higher rate than the state pays) plus property taxes and profit.

The practical result of this is that the property manager (in our case the Wisconsin Department of Administration) who is held responsible for recovering his total costs, including interest, will, of necessity, give occupancy preference in state owned buildings to state funded programs forcing federally funded activities to locate elsewhere. When viewed from the total management and program responsibilities of a given state administrator (who may well be administering both state and federally funded programs in his agency) this type of space assignment policy is most undesirable and can lead to duplication of staffing functions, inefficiency, confusion to the public, and less productivity than could otherwise be expected.

Our experience has proven that it is more costly to lease private space than to "rent" state owned buildings, including interest costs. Decisions to lease or to purchase are admittedly not always based simply on cost due to exigencies or other program expediting needs. However, on the basis of over all policy development and long term fiscal economy, interest cost reimbursement is a factor which is regularly recognized by state agency grantees.

We strongly urge a federal policy change which will recognize interest as a normal cost of program administration which should be reimbursable in the general philosophy of the A-87 concepts.

The most mystifying part of the entire A-87 concept is the conflict of policy between two areas of the federal government. The Executive portion of federal government embraces the cost recognition principles of A-87 but the Legislative portion of government - Congress - does not appear to have ever heard of it! (That lack of communication is of course, now new.) The point is that unless the Executive Agencies and OMB can induce or educate Congress to recognize the principles of A-87, we have little hope for A-87 to become a fully adequate means of realizing significant savings through indirect cost rate recognition.

Let me explain that statement more clearly. I am talking about the "moment of truth" when after agonizing efforts to arrive at indirect costs and negotiate cost rates, you discover that these rates can not be applied to some of your federal aid grants and more often than not, the rates cannot be applied to the larger (Big Money) grants. This is where the impact of two lines in the objectives statement contained in Circular A-87 really hits home. "They are designed to provide that federally assisted programs bear their fair share of costs recognized under these principles, except when restricted or prohibited by law." In the word "law" lies the root of our problem with Congress. Because all too often the federal law which created the grant program specifies by formula the total dollars available to each state, or specifies hard dollar matching, the Congressional mandate effectively precludes practical application of A-87. In the case of formula grants (which specifies maximum federal dollar assistance) the grantee could presumably use part of the federal dollars to reimburse for indirect costs by merely reducing the funds available for direct program operation - this Peter vs Paul syndrome is generally unpopular and an undesirable alternative for most grantee officials. In some formula grants matching amounts are specified, while other programs laws permit the hard match to be reduced to serve as an equalizer for approved indirect costs, but this option is inconsistently applied and not to be relied upon. The advent of Circular A-102 which standardizes many grant procedures, including definitions of matching funds, should help remove much of the present ambiguity related to the matching funds situation.

I recall back in early 1969 when we were first being introduced to old No. 87, when the states first expressed some of our doubts to Nate Karol, Hank Kirschenmann and others, we asked - Where's the money coming from? (Sounds like a commercial for Household Finance Corporation). At that time they candidly admitted there was not any new money available nor was there any magic pot at the end of the rainbow. However, we were encouraged to enter into the arduous indirect cost plan process with the view that

while immediate benefits might be minor, in the long pull added benefits could accrue. The Executive agencies, especially HEW proposed to use the data assembled from each State as backup and documentation to take to Congress to demonstrate the need for increased program appropriations - especially appropriations which would be for program needs plus indirect cost reimbursment.

In all fairness to HEW, they may have made a concerted effort in this regard to educate Congress. But to the best of my knowledge, I am not aware of any evidence to this effect. With the wealth of indirect cost data now available it is not unreasonable to assume that an estimate of national indirect cost reimbursement could be made and this information then transmitted vigorously to the appropriate Committees of Congress. Legislation for new or renewable programs could be constructed to reflect both programmatical and indirect cost funding, so that presently enunciated executive policy can soon become a workable, equitable national policy.

It is my view that the A-87 principles, while conceived in the best of intentions have resulted in some discrimanatory practices which have produced gross inequities in the grant in aid systems.

Recommended action - Insistence upon response for national policy
- Through your grantor agencies
- Through the Federal Regional Council
- Through Congressional delegations

Indirect Cost Problems - LEA Viewpoint

Problems of Federal Funded Indirect Costs

from the LEA Viewpoint

Mr. Fred R. Holt, Superintendent
Janesville Public Schools
Janesville, Wisconsin

I hope that I can be of some help to you and your deliberations at the state and federal levels. I understand that I am the only one here who is in a local district assignment.

I am intrigued with that OMB title. In our community, the public would probably say that means "the officer of much bologna" reflecting an attitude toward administration and administrative costs either direct or indirect. Or the kids might say he is that "Old Manager of Bureaucracy" or some other such use of those letters. I am always intrigued with the alphabet soup that comes out of various places including Washington. I'll have to admit, I among other colleagues in school administration, have a difficult time keeping up with all these letters; what they mean and how they interrelate, and I am sure that my fellow superintendents all over the country recognize that the situation might be one way this week as charted so beautifully, but next week it might be quite different. There are a number of changes coming to us every week correcting what we interpreted the week before or two weeks before and, believe me, the people on our staff who have the degree of expertise that we are able to provide with reductions because of budget cut-backs, devote considerable time to federal program coordination.

In our case coordination is handled by a man who wears two hats, one as Federal Program Coordinator, the other as Local Vocational Education Coordinator. For him to keep on top of all that is necessary for a system

like ours and to do the job is a tremendous task. We need more expert help than we can provide and I am very happy every time anything comes to my desk, to give it to him so that he can interpret it. When Robb gave me a 30-page document to look at and a week later I only completed 12 pages of it, I had this young man read it over and give me the essence that I could use. We were both rather confused. I have learned a great deal today and I appreciate being here. I hope I can transmit some of what has been going on to other Wisconsin communities as well as to our own district.

We had a board meeting last night, during which we were discussing how to cut $497,000 out of a budget of about 13.5 million, and all the points of view that nine different board members had were in evidence. On the whole everything came out quite well. In Wisconsin, we are facing some difficult financial problems. I am sure everyone that comes from a different state has similar kinds of experiences. Having worked at the local level at one time or another, you are aware of how difficult it is to face up to the economic problems you have with a political structure that you must maneuver within and still try to get the job done.

I think I am speaking for most superintendents, when we examine the vocabulary used in all the documents that make up state and federal programs and directives, we want to be sure we understand that vocabulary, and interpret it to our own unique situations. This morning in the interchange that you people had, you were talking in a language that is somewhat foreign to those of us who aren't close to the situation. When we get into the field of indirect costs toward which this conference is directed, I can tell you that local educational agencies, as I see them anyway, are confused and are

not sure just what can be justified in the way of time, money, equipment and supplies, or anything else you might relate to indirect costs.

I might point out to you who don't live in Wisconsin that we have 441 school districts. There are 359 of these districts which are K-12, 59 are K-8, and the other 13 are 9-12. Different types of districts present problems at the state level. Each one of these districts has its own unique problem in terms of what it will or will not do in seeking support through the state department of federal funds available for programs that are worthwhile. I can recall in the early days when this all came about, being one of several superintendents in Wisconsin who went to Washington to meet President Johnson and get the initial directives or explanations of the title programs that were being put into effect at that time. I can assure you when I came back with the assignment to report to our Wisconsin Association of School District Administrators what I had learned, I had a difficult time putting it down in a manner what would be easily understood by people who had relatively little experience with this kind of thing. I think, honestly, that those of us who lived with it and worked with it since 1964-65 up to the present time, have not by any means clarified all of our confusion, particularly when there seems to be rapid change in the way in which the programs are administered and directives issued.

Be that as it may, I would like to point out that as far as indirect costs are concerned, we have made some tentative efforts to include them in any proposal we make. Right now in Janesville we have approximately $250,000 in federal aid programs in operation, either approved or pending approval. By no means do I think all are going to be funded. We are concerned first of all with what is going to be permitted on direct costs in programs

that require matching funds or a certain percentage of local funds; especially those programs that become available after our budget has been adopted. We constantly ask ourselves are we going to be able to provide local funds or aren't we, within the limitations of a budget which has little or no contingency. In terms of direct and indirect costs, we find we are trying to provide funds for programs after the federal dollars have been initiated and after so called seed money has been used up as we learn from the state department when we make our initial request.

There was a time when we felt there is no point in wasting our time or efforts on anything but Title I because that happened to be the largest amount of money returned to Wisconsin. In case you don't know it, Wisconsin has a long historical tradition of anti-federal aid and anti-federal control. We still have that feeling in evidence. A community such as mine is quite conservative. I have board members who would just as soon have nothing to do with any federal money but at the same time are willing to admit, when I press them, that the only way that we got some of our school buildings back in the 30's was WPA. Thank the Lord that boards back in those days were at least wise enough to accept federal funds with relatively few regulations in building those buildings. That kind of basic philosophy in the minds of the people with whom you work and the community in which you live, has a lot to do with whether or not you, as an administrator trying to get the most value for youngsters from a program that has to do with federal support, can determine what's logical and what's reasonable and what we can expect to do.

When we do meet with defeat or have a rejection of a proposal on which we spent a lot of time, we ask was it time wasted or did we learn something that will help us the next time around. So in the area of indirect costs,

some of the difficulties that we have encountered will determine the acceptability or what is logical to include for what is called supervision or administration. We fear that if we try to put into a proposal more money then we think might be acceptable for the administrative or supervisory aspect of the total program, it is going to be rejected. In our experience, some of these indirect cost requests have been denied. Basically, I think we should be sure that what we can get is devoted to the welfare of children who are in need of programs that federal projects will permit, whether it is Title III or Title I, Title II, or Title VI; whatever it might be.

We had an experience with the Omnibus Crime Bill last year. This is the best example I can think of, where we tried to analyze clerical, maintenance of plant, operation and administrative costs, as well as the input of a variety of staff members who helped develop what we thought was a pretty sound program and for which we had a lot of encouragement from the people in the Justice Department of Madison. We were told to do all you can to implement it. We had a few more people work on it; time was consumed; paper was consumed, as well as hours of consultation. We were quite confident that we were going to get approval. Everything was fine until it came right down to the last analysis when the Board of Review decided that the long standing reputation of Janesville as being a wealthy community meant that you can't justify this kind of a program even though it was aimed at juvenile delinquency in certain parts of our district. The disappointment and the blow to the morale of the staff members who devoted so much time and effort was obvious. They were reluctant thereafter to work with any kind of federal proposal, particularly if indirect costs were involved.

Those indirect costs that we thought were important in that particular project included the portion of time of people in our staff, the in-kind aspects of the program that were legitimate in our judgment at least. We had confidence that our overall proposal for the direct and indirect costs in this project made sense, and to receive a very negative rejection was a discouragement.

I will have to admit that we are still optimistic enough to think that we have other projects that are worthy of state approval, that meet the federal guidelines, and in which we are incorporating some indirect costs as part of the proposal. But I think you will agree that in most every community and every Board of Education, there is a reluctance now, more than ever before, to permit very much being allocated to "administration" whatever that term might cover. When we present a proposal and break it down to the Board of Education, representatives of both city and rural people, you can not help but sense a reluctance to show that we have some indirect administrative costs that are logical to this program for which we ought to get some return. The immediate feeling is if you are going to put that much money in a request for "administration" it must be that we aren't going to do all we should be able to do directly for the youngsters involved. We are going to have to cut down somewhere on supplies and equipment, salaries of people who are directly assigned to it, whether a 40% project, a 90% project, or 100%; whatever it might be. This creates difficulty just in selling it, trying to make a political sell; but so far we have been very successful. Right now we must prove that we need an ecology project, one in Consumer Education, and an EMR Welding program; all in Title III. None of these are very extensive but in each we incorporate a few of these costs that are described so well in the 30-page document on indirect costs.

Apparently, the proposals were prepared well enough and the communication was accurate enough for the members of the State Department who have the authority to determine whether or not they are approved. All we have to find out now is are they going to be funded.

If Mr. Nixon follows the trend towards cutting down on programs that are to be funded out of HEW our chances probably now are less than they were a few years ago to get the funding which we have been looking forward to enthusiastically. This uncertainty casts pessimism and cynicism in the minds of all of us at the local level. Why should we bother if we are going to run into that political maneuver to cut back on what is best for kids all over the country and to build only on the political level for the things that win votes? Why should we spend our time when there are so many other things that win votes? Why should we spend our time when there are so many other things that our rather limited staff at the central office can devote itself to? There is no question in anybody's mind that you take people off other functions in your system if you are really going to provide the kind of document, the method of evaluation, and all that is required in one of these proposals to get it approved. We can't do it just overnight; we cannot do it with one person alone; we must have team effort. You must call on a cross-section of skills within your staff to put it together and see to it that it is acceptable in the hope that it will be approved and secondly, that it is going to be funded.

When we talk about direct or indirect costs our experience is limited because by no means have we been able to do all Milwaukee or Racine or Kenosha, for example, have been able to do. We happen to be the seventh largest district in Wisconsin now and I am sure we are not equipped personnel-wise, budget-wise, to provide the kind of input which is required

in getting all projects developed to the point that they are approvable and hopefully funded. We are wondering how much we can request of any kind of expense related to staff or other legitimate expense that will be acceptable. We see what is happening in other states who receive a much greater share of federal dollars from Washington than Wisconsin ever did or will.

Let's look back at the past seven years and see what has been accomplished. I think we can be proud of the fact that our efforts in getting some Title I programs into a basic reading, central type program in our elementary schools has paid some real dividends for youngsters. I don't think we would have been successful without the input of federal dollars from Title I. The development of the team teaching, multi-unit, individually guided instruction program at the elementary level started with Ford Foundation funding, but was picked up through Title III and expanded. It might not have reached the point it is today, (and it is very enthusiastically received in our community) had we not had the help from funds in Title III. We have made progress because of NDEA, the Vocational Educational Act, Title II and Title VI. So we have to look at the positive side of what has been gained in spite of our reluctance and our resistance towards some of the requirements that have been so carefully outlined at the state level for us to comply with at the local level. We have tried to point out to our taxpayers who have been waving that flag at us, blaming the schools for everything that relates to higher taxes, that in Wisconsin 60 1/2% of the tax dollar goes to federal government, 23 1/2% goes to the state government, 8.9% goes to schools, and 6.9% goes for municipalities. We show that the state supported municipal services in Janesville to the extent of 69.6%, and for schools only 30.4%. The person who is complaining about his property tax which admittedly, in our state carries the greatest

burden of support for elementary and secondary education, does not stop to compare his property tax with the amount of money he is sending to Washington, or to Madison.

The School Board Convention, for which I leave shortly, to chaperone some board members tonight and tomorrow at Milwaukee, will again take up the difficult problem of how to influence the Wisconsin legislature to provide a greater share of support from the state rather than from property taxes. This is a difficult problem, as you well know in your state, although I am aware of the fact there are some states that are not faced with the problem to the extent that we are.

Well, gentlemen, I don't want to prolong this unnecessarily. I know the mind will absorb no more than the seat will endure and I would like to suggest that there are good reasons why we at the local level try to keep after reasonable programs with district, state, and federal support. I think the <u>first</u> concern on the part of those of us who are closer to the needs of the youngsters in our own unique situation, and our staff and all their needs will be to answer the question: Will what we try to do with direct or indirect costs actually prove to be of help to our kids? Lord knows there are areas in which we need to improve and to provide that kind of educational experience that we are not able to do now. <u>Secondly</u>, it is going to broaden the perspectives of our professional and non-professional staff (we use a lot of non-professionals) regarding what federal support and state support can do for local educational programs? We have seen some results of this through internal operations where people at the level of teaching as well as para-professionals and others are learning that there is an advantage to be gained by spending time on preparing federal programs

that can provide the finances to see them through. Third, it is important to get some of our federal tax money back, and a great deal goes to Washington from Janesville, a General Motors city. We can use it for good purposes. Fourth, we need a united effort of school districts in our state to give the Department of Public Instruction help to justify the programs at the state level such as Title V and prove to the legislature, or anybody else who asks, that these programs are needed and desirable. It is our obligation to help the state department who in turn helps us. This kind of team effort is so vital. And fifth, we need better support from our various publics. The best example of strong support is the people who are vitally interested in the handicapped; parents who recognize that some of the things we have been able to do for the handicapped are happening because of increased federal and state support. The mandate to provide education for all children, ages 3 to 21, covering pre-school, as well as post high school education--from the very active support of parent groups is evident. It is that great American tradition of parents wanting more for their youngsters than they themselves experienced.

I think each local district needs to continually assess its total program and needs to perpetuate a restless discontent of its staff, of its board, of its community. By that I mean a refusal to be complacent. Each district needs its honest share of state and federal monies available for both direct and indirect costs. We must not sit back and do nothing and become a complacent school district, for nobody will thank us for that in the long run.

I have tried to do all that Robb suggested that I do in explaining the difficulties LEA's face. In order for us to continue effectively at the local level we must cooperate with the state and federal agencies. We have

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the language means, that it relates to a program in which we have a specific interest. We must understand direct and indirect costs that are applicable to each of our proposals. We must have enough optimism, at least as I see it, to make sure that we are going to influence not only our state legislature, but our congressmen as well, that we need to continue to cooperate and give support to HEW, the Office of Education; break down the red tape to the extent possible, try to simplify our language, and come up with the program that will be applicable to our own communities. By no means am I so naive as to think that you can even predict the percentage of success you are going to have in the effort you make to outline the cross-elements, to interpret national aspects of all that is involved.

Young people, to whom all of this is directed, are interested and are as you probably recognize, more conversive with what is going on these days than we were at their age. When I get into some of these classrooms such as social problems, and they are talking about federal support and how it applies to our community, I am quite amazed at the research they have done. I have learned things from my own youngsters in this regard that have been most encouraging. At the same time there is that note of criticism and doubt that reflects their parents attitude because of the problems we face and the rejections we have had. If our main focus is going to be on children and youth, let's keep externally alert to their moods and what is best for them in the changing times in which we find ourselves.

I think sometimes we get so mired in the intricacies of maneuvering for funds, or in the administrative detail that we lose sight of our basic objectives. So I would compliment you on your effort, whatever your position might be, to understand and hopefully to simplify the whole

method so we can get results for children within the economic, political, and social structure in which we operate in this country in spite of the tendency to go overboard with vocabulary in trying to communicate.

Together we have to keep at it and try to do a better job.

Appendix

1. Schedule of the Indirect Cost Workshop

2. Indirect Cost Topics Assigned to the Workshop Speakers for Discussion

AGENDA

Wednesday, January 17th

9:30 Registration

10:00 **Welcome and Orientation**
Dr. Archie Buchmiller
Deputy State Superintendent
State of Wisconsin

Dr. Emmett Slingsby
Assistant Superintendent
Federal Relations
State of Illinois

10:30 **Coffee Break**

11:00 **Problems of Federal Funded Indirect Costs from the SEA - LEA Viewpoint**

"Michigan SEA Viewpoint"
Mr. Earl Hopps
Supervisor of Accounting Program
State of Michigan

"Illinois SEA Viewpoint"
Mr. Ronald Reguly, C.P.A.
Assistant Superintendent for
Fiscal Management
State of Illinois

"LEA Viewpoint"
Mr. Fred R. Holt
Superintendent of Public Schools
Janesville, Wisconsin

12:30 **Lunch (on your own)**

1:30 **"Indirect Costs - SEA - LEA from the Federal Viewpoint"**
Mr. William (Bill) Gately,
Deputy Chief
Office of Grant Administration
Policy
Washington, D.C.

Panel Reaction
Panel:
Mr. Earl Hopps -Michigan
Mr. Ray Horn -Ohio
Mr. Ronald Reguly -Illinois

Questions from the audience

2:45 **Coffee Break**

3:15 **"What Makes a Successful Indirect Cost Plan from the SEA Viewpoint"**

Mr. Ronald Reguly, C.P.A.
Assistant Superintendent for
Fiscal Management
State of Illinois

Questions from the audience

Thursday, January 18th

9:00 **"Methods of Orienting LEA's Concerning Federally Funded Indirect Cost Plans"**
Mr. Earl Hopps
Supervisor of Accounting Program
State of Michigan

Questions from the audience

10:00 **Coffee Break**

10:30 **"Problems of Indirect Costs As viewed by Centralized State Administrative Services"**
Mr. Don Holl
Coordinator of Federal-State
Relations
Wisconsin Department of
Administration
Madison, Wisconsin

Panel Reaction
Panel:
Mr. Earl Hopps Michigan
Mr. Ray Horn Ohio
Mr. Ronald Reguly Illinois

Questions from the audience

12:00 **Lunch (on your own)**

1:00 **Summary of Workshop by Panel**

Mr. Wm. (Bill) Gately Washington, D.C.
Mr. Earl Hopps Michigan
Mr. Ray Horn Ohio
Mr. Ronald Reguly Illinois

2:30 **Adjournment**

Federally Funded - Indirect Costs SEA - LEA

I am listing some points below which should be discussed by Mr. Hopps, Mr. Reguly, Mr. Holt and Mr. Gately in their speeches. These points are derived from the concerns of SEA Fiscal Officials. This is not a comprehensive list but merely some points that have come to my attention.

I am therefore requesting that each individual discuss the suggested points listed under his name. This is not meant to be a limitation of points discussed.

Partial list of points suggested for Mr. Gately

1. The original objectives of A-87 should be reviewed to see if they are being met and if they are worthwhile objectives. At one time these were given as:

   a. Establish uniform standards of allowability of reimbursement of overhead (indirect) costs.

   b. Identify the full costs of federal programs, both direct costs and indirect costs.

   c. Ensure that federal programs bear their fair share of the costs.

   d. Simplify intergovernmental relations.

2. Clarification of the "supplement and not supplant" provision is needed. An investigation of the ramifications of making the provision uniform for all federal programs for both the LEA's and SEA's is needed if a morass of administrative detail is to be avoided.

Partial list of points suggested for Mr. Reguly

1. The role of various divisions within an SEA in the preparation of plans for the SEA and approval of LEA plans needs to be explored. It appears that some states are following a plan whereby one division is preparing the indirect cost allocation plan for the SEA and another division is approving plans for LEA's. The recommended pattern of development within a state agency needs to be explored.

2. How much staff is needed to instruct, confer and approve plans for LEA's? This question may need to be divided into two parts, to include staff for the initial development period of approximately two to three years and staff for future years beyond that.

3. What procedures must an LEA follow in obtaining approvals to utilize indirect cost rates against federal programs?

Partial list of points suggested for Mr. Hopps

1. What steps are necessary when reorganization is implemented which changes the application base to which the rates are applied in an SEA?

2. When applying A-87 to State Departments, what criteria are developed in establishing cost centers which are applicable to organizational structures vs. functional activities as they relate to the following:

    a. Administrative general
    b. Administrative Grants
    c. Inter-governmental Administrative General

3. The application of indirect cost rates can vary from the past funding of activities of a state department. What are the federal recommendations for easing or allowing a timely transition from a direct charge basis to an overhead method?

4. What methods are suggested to be used to distribute costs in view of the crudeness of the act of cost accounting in government.

5. Discuss the "roll forward" adjustment.

6. What is the mandatory date for using indirect costs at the LEA level?

7. Why are some LEA programs funded with a restricted rate while others carry their full share of indirect costs?

8. What provisions are being incorporated in the revisions to Handbook II to facilitate the development of indirect cost rates for LEA's?

9. What phases of school activity are considered indirect cost pools? For instance, would an assistant superintendent for curriculum be a part of a direct cost pool or an indirect cost pool? Discuss other central office operations.

10. How would a situation where a part-time administrator in the business office and a part-time teacher be handled in an indirect cost rate?

11. What is the significance of the term "district wide activity" in the area of central office administration?

12. When a rate is a predetermined fixed rate and the rate based on actual costs would be less, would there be some adjustment made for the difference?

Partial list of points suggested for Mr. Holt

1. The difficulties that LEA's are likely to encounter should be explored. Presumably the preparation of one indirect cost allocation plan for a small school district will involve many difficulties in preparation and justification before acceptance is gained from the SEA. The type of help needed and available to LEA's should be explored.

2. Explore the man hours expended to prepare an indirect cost plan in relation to the amount of return gained. Does indirect cost become feasible for the typical public school system?

Robb L. Shanks
Interstate Project Director

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